NORTH CANADIAN OILS LIMITED
MERLAND EXPLORATIONS LIMITED
AND
BANKENO MINES LIMITED

JOINT PROXY CIRCULAR/PROXY STATEMENT/PROSPECTUS

The address of each of North Canadian Oils Limited , Merland Explorations Limited and Bankeno Mines Limited is 700, 112 - 4th Avenue S.W., Sun Life Plaza III, Calgary, Alberta, Canada T2P 4B2; Phone: (403) 261-3100.

This Joint Proxy Circular/Proxy Statement/Prospectus constitutes a Proxy Circular and Proxy Statement in connection with the solicitation of proxies by management and the board of directors of each of NCO, Merland and Bankeno for the Special Meetings of their respective shareholders to be held on June 25, 1986.

At the Bankeno Special Meeting, the shareholders will be asked to consider and, if thought fit, approve:

(i) the election of directors, (ii) the appointment of auditors, (iii) the reduction of stated capital of Bankeno by the amount of $41,798,000 by the Distribution, pro rata, of the Merland common shares held by Bankeno to the shareholders of Bankeno, and (iv) the reduction of stated capital of Bankeno by the amount of $157,664,000, which has the effect of reducing the deficit account on the balance sheet of Bankeno.

At the Merland Common Share Special Meeting, the Merland Preferred A Special Meeting and the Merland Preferred B Special Meeting shareholders of Merland will be asked to consider and, if thought fit, approve the Amalgamation of Merland and NCO pursuant to the Canada Business Corporations Act ("CBCA") and their continuance as one corporation, Amalgamated NCO.

At the NCO Special Meeting, the NCO Class A Special Meeting, the NCO Class B Special Meeting and the NCO Common Share Special Meeting, shareholders of NCO will be asked to consider and, if thought fit, approve the Amalgamation of NCO and Merland pursuant to the CBCA and their continuance as one corporation, Amalgamated NCO.

This Proxy Circular also constitutes a prospectus, for the purposes of the laws of the United States, relating to the issuance pursuant to the Amalgamation of 1,960,633 common shares of Amalgamated NCO in exchange for common shares of Merland, and 18,200 Amalgamated NCO Class B Series 6 Shares in exchange for Merland Preferred Series A Shares and 200 Amalgamated NCO Class B Series 7 Shares in exchange for Merland Preferred Series B Shares to be issued to United States shareholders and the common shares required upon conversion of such Amalgamated NCO Class B Preferred Shares.

This Proxy Circular was first mailed to shareholders of each of NCO, Merland and Bankeno on or about May 22, 1986. Certain capitalized terms used herein are defined in the Glossary provided herewith. All information contained herein in respect of NCO, Merland and Bankeno has been supplied by each such respective corporation.

NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE DISTRIBUTION OR THE AMALGAMATION AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENSE.

THE SECURITIES OF AMALGAMATED NCO HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION ("SEC") OF THE UNITED STATES OF AMERICA NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No person is authorized to give any information or to make any representation not contained in this Proxy Circular in connection with the issuance of the securities of Amalgamated NCO referred in this Proxy Circular

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and if given or made, such information or representation should not be relied upon as having been authorized. This Proxy Circular does not constitute an offer to sell or a solicitation of an offer to purchase the securities offered by this Proxy Circular or the solicitation of a proxy in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Proxy Circular nor any distribution of the securities made under this Proxy Circular shall, under any circumstances, create any implication that there has been no change in the affairs of NCO, Merland, or Bankeno since the date of this Proxy Circular.

NCO is a Canadian corporation. Most of the directors and officers of NCO and most of the experts named herein are neither citizens nor residents of the United States. All or a substantial part of the assets of such persons may be located outside of the United States and a majority of the assets of NCO are located outside of the United States. As a result, it may be difficult for investors to effect service of process within the United States upon such persons or to enforce against them or NCO within the United States judgments of courts of the United States predicated upon civil liabilities under the United States federal securities laws. NCO has been advised by Canadian counsel, MacKimmie Matthews, Calgary, Alberta, that there is doubt as to the enforceability in Canada against NCO or any of such persons in original actions or in actions for enforcement of judgments of United States courts of liabilities predicated solely upon such securities laws.

NCO has filed with the SEC, Washington, D.C., a Registration Statement under the Securities Act of 1933 of the United States (the "1933 Act") with respect to the securities offered by this Proxy Circular. This Proxy Circular does not contain all of the information set forth in the Registration Statement. For further information with respect to NCO and the securities being offered hereby, reference is made to the Registration Statement and to the exhibits and the schedules filed therewith. Each statement made in this Proxy Circular referring to a document filed as an exhibit to the Registration Statement is qualified by reference to the exhibit for a complete statement of its terms and provisions. The delivery of this Proxy Circular at any time does not imply that information herein is correct as of any date subsequent to the date hereof.

NCO is subject to the informational requirements of the Securities Exchange Act of 1934 of the United States (the "1934 Act") and, in accordance therewith, files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information can be inspected and copied at the following public reference facilities maintained by the SEC: Room 1024, 450 Fifth Street N.W., Judiciary Plaza, Washington, D.C. 20549; Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois 60604; and Room 1102, Federal Building, 26 Federal Plaza, New York, New York 10007. Copies of such material can be obtained by mail from the Public Reference Section of the SEC at 450 Fifth Street N.W., Washington, D.C. 20549 upon payment of prescribed rates. In addition, reports, proxy statements and other information concerning NCO can be inspected at the offices of the American Stock Exchange, 86 Trinity Place, New York, New York 10006. Amalgamated NCO will be subject to the informational requirements of the 1934 Act.

The contents and the sending of this Proxy Circular have been approved by the board of directors of each of NCO, Merland and Bankeno.

The date of the Proxy Circular is May 22, 1986.

By Order of the Board of Directors of each of NCO, Merland and Bankeno

G Billing

Grant D. Billing
Secretary

Calgary, Alberta, Canada

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TO THE SHAREHOLDERS OF NORTH CANADIAN OILS LIMITED

May 22, 1986

Dear Shareholder:

Enclosed with this letter is the Notice, Proxy and Joint Proxy Circular relating to the Special Meetings of Shareholders to be held in Calgary on June 25, 1986. These meetings are very important because shareholders are being asked to approve an amalgamation of North Canadian with Merland Explorations Limited. I urge you to read the material presented in the Joint Proxy Circular and to either attend the meeting or complete and return the enclosed Proxy.

We believe that the amalgamation will have a very real benefit to you as a shareholder of North Canadian. The new amalgamated company will have operational and financial strength that will allow it to better withstand the cyclical nature of the oil and gas industry, and further, to take advantage of value-orientated growth opportunities which we believe will be available in the industry over the next few years.

If the amalgamation had then been effected, the new amalgamated company would have, at December 31, 1985, natural gas reserves of 906.8 billion cubic feet, oil and natural gas liquids reserves of 6.4 million barrels and 2 million gross (767,000 net) acres of undeveloped lands. Assets at March 31, 1986 would be $800 million, of which $222 million is working capital, providing the ability to take advantage of future opportunities. Shareholders' equity at March 31, 1986 would be $379 million. Net income for 1985 would have been $28 million. We believe, in the foreseeable future, that natural gas will be a stronger commodity than oil and the addition of Merland's substantial gas reserves and deliverability will enhance the asset base of the new amalgamated company.

The exchange ratio of 5.75 Merland common shares for each common share of the new amalgamated company was arrived at after careful analysis and consideration of a number of factors. In addition, Wood Gundy Inc. was retained to provide an independent opinion as to the fairness of the amalgamation and they have determined that the amalgamation is fair and reasonable to the common and preferred shareholders of each of North Canadian and Merland.

In light of the extensive and detailed information provided in the Joint Proxy Circular on your company for 1985, we have decided not to incur the expense of an annual report for 1985. We do intend to provide an information report on the new amalgamated company after July 1, 1986 and this will be sent to you with the Quarterly Report for the six months ending June 30, 1986. However, included separately in the enclosed package is a copy of the North Canadian and Merland Quarterly Reports for the three months ended March 31, 1986.

We believe the new amalgamated company will provide the opportunity to more effectively enhance your shareholder values and look forward to your support.

Yours very truly,

NORTH CANADIAN OILS LIMITED

Norman R. Gish
President and Chief Executive Officer

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EXCHANGE RATES

In this Proxy Circular dollar amounts are expressed in Canadian dollars unless otherwise indicated. The following table sets forth for the periods indicated the range of spot prices for the Canadian dollar in United States dollars (rounded to the nearest cent) as reported by the Royal Bank of Canada.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
1981	$0.85	$0.83	$0.85	$0.83	$0.83	$0.80	$0.85	$0.83
1982	0.84	0.81	0.82	0.77	0.81	0.77	0.82	0.80
1983	0.82	0.81	0.82	0.81	0.81	0.81	0.81	0.80
1984	0.80	0.78	0.79	0.76	0.77	0.75	0.76	0.75
1985	0.76	0.71	0.74	0.72	0.74	0.72	0.73	0.71
1986	0.72	0.69						

On April 30, 1986, the noon buying rate in New York, New York for the Canadian dollar as reported by the Royal Bank of Canada was (U.S.) $0.73.

SUMMARY

The following summary generally relates to the Distribution and the Amalgamation and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Proxy Circular. For information relating to other matters to be considered at the Bankeno Special Meeting see "Bankeno Special Meeting". Shareholders are urged to read carefully this entire Proxy Circular and Appendices.

The Corporations

NCO and Merland are each Canadian federal corporations primarily engaged in the business of oil and gas exploration, development and production, principally in Canada. NCO is also involved in the business of natural gas transmission. Bankeno, an Alberta corporation, is engaged in the business of oil and gas exploration, development and production in Canada, as well as in the business of lead-zinc mining. NCO owns approximately 87% of the issued and outstanding common shares of Bankeno, which in turn owns approximately 53% of the issued and outstanding common shares of Merland. Six of the ten NCO directors are also six of the eight Merland directors. Five of the NCO directors are also five of the seven Bankeno directors. See "Business of NCO", "Business of Merland" and "Business of Bankeno".

Proposals

NCO and Merland propose to amalgamate pursuant to the provisions of the CBCA and to continue as one corporation, Amalgamated NCO. Bankeno intends to vote the Merland common shares owned by it in favour of the Amalgamation.

Bankeno proposes to distribute the Merland common shares held by it pro rata to its shareholders. Upon the Amalgamation becoming effective on the Effective Date, which is expected to be July 1, 1986, the Distribution shall be deemed to have been effected, and the holders of record of the common shares of Bankeno at the close of business on June 27, 1986 shall be deemed to be holders of record of the Merland common shares so distributed for the purposes of the Amalgamation. The effect of the Distribution is to reduce Bankeno's stated capital by the amount of $41,798,000.

Thus, shareholders of NCO and Merland will become shareholders of Amalgamated NCO; shareholders of Bankeno will remain shareholders of Bankeno and, in addition, will also become shareholders of Amalgamated NCO. The Merland common shares to be distributed to NCO as a shareholder of Bankeno will be cancelled upon the Amalgamation. See "Distribution of Merland Common Shares to Holders of Bankeno Common Shares" and "Amalgamation of North Canadian Oils Limited and Merland Explorations Limited".

Bankeno also proposes to reduce its stated capital by an amount of $157,664,000 which has the effect of reducing the deficit account on the balance sheet of Bankeno. See "Bankeno Special Meeting".

Reasons for the Amalgamation and Distribution

The board of directors of each of NCO and Merland believes that Amalgamated NCO will enjoy benefits from the Amalgamation which are not presently available to NCO and Merland operating as individual entities. The Amalgamation will facilitate the combination of the assets, businesses and operations of NCO and Merland to provide for more effective utilization of their financial resources and assets. See "Reasons for the Amalgamation".

The board of directors of Bankeno believes that the Distribution will result in Bankeno being better able to directly pursue its business activities separate and apart from those of Merland. The board of directors believes that the value of the Merland common shares held by Bankeno is not adequately reflected in the value of the shares of Bankeno. The Distribution will allow shareholders of Bankeno to participate directly in the benefits arising out of the Amalgamation. See "Reasons for the Distribution".

Shareholders' Meetings

The Special Meetings of shareholders of each of Bankeno, Merland and NCO will be held at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta, on Wednesday, June 25, 1986 in the room, at the time (MDT) and for the purposes set forth below.

The Bankeno Special Meeting will be held in the Turner Valley A room at 9:00 a.m. to receive Bankeno's consolidated financial statements, elect directors, appoint auditors, approve the Distribution and approve the reduction of stated capital resulting in the reduction of Bankeno's deficit.

The Merland Common Share Special Meeting will be held in the Turner Valley A room at 10:30 a.m. to approve the Amalgamation.

The Merland Preferred A Special Meeting will be held in the Turner Valley B room at 11:00 a.m. to approve the Amalgamation.

The Merland Preferred B Special Meeting will be held in the Turner Valley A room at 11:30 a.m. to approve the Amalgamation.

The NCO Special Meeting will be held in the Turner Valley A room at 2:00 p.m. to approve the Amalgamation.

The NCO Class A Special Meeting will be held in the Turner Valley B room at 2:45 p.m. to approve the Amalgamation.

The NCO Class B Special Meeting will be held in the Turner Valley B room at 3:00 p.m. to approve the Amalgamation.

The NCO Common Share Special Meeting will be held in the Turner Valley B room at 3:15 p.m. to approve the Amalgamation.

Shareholders' Approvals

The Distribution of the Merland common shares owned by Bankeno to the holders of Bankeno common shares and the reduction of the stated capital of Bankeno, which has the effect of reducing Bankeno's deficit, must each be approved by special resolution of the shareholders of Bankeno at the Bankeno Special Meeting passed by a majority of not less than 66⅔% of the votes cast.

Notwithstanding the affirmative special resolution of the shareholders of Bankeno the Distribution shall not become effective unless and until the Amalgamation becomes effective. Thus, Bankeno will retain the right to vote the Merland common shares owned by it in respect of the Amalgamation, and it is the intention of Bankeno to vote its Merland common shares in favour of the Amalgamation.

The Amalgamation must be approved by the special resolution of the holders of common shares of Merland, Merland Preferred Series A Shares and Merland Preferred Series B Shares, in each case voting separately as a class or series at their respective Special Meeting, which special resolution must be passed by a majority of not less than 66⅔% of the votes cast.

The Amalgamation must be approved by the special resolution of holders of all classes of shares of NCO voting together at the NCO Special Meeting and passed by a majority of not less than 66⅔% of the votes cast. In addition, the holders of common shares of NCO, NCO Class A Shares and NCO Class B Shares must, in each case voting separately as a class at their respective Special Meeting, approve the Amalgamation by special resolution passed by a majority of not less than 75% of the votes cast.

Notwithstanding the approval of the Amalgamation by the shareholders of NCO or Merland, the directors of either NCO or Merland may, by resolution, agree to effect a revision or amendment to, or to terminate the Amalgamation Agreement, at any time prior to the Effective Date.

Directors and executive officers, and their affiliates, of NCO hold, or are deemed under the regulations of the SEC to hold, in the aggregate 6,471,042 (59%) of the common shares of NCO, 1,200,000 (60%) of

the NCO Class A Preferred Shares, and 1,800,000 (45%) of the NCO Class B Preferred Shares, representing 9,471,042 (56%) of the NCO shares entitled to vote in respect of the Amalgamation. Directors and executive officers, and their affiliates, of Merland (other than Bankeno) hold, or are deemed under the regulations of the SEC to hold, in the aggregate 1,592,959 (8%) of the common shares of Merland and 400 of the Merland Preferred Series A and B Shares, representing 1,593,359 (7%) of the Merland shares entitled to vote in respect of the Amalgamation. None of such persons has indicated an intention to vote such shares otherwise than in favour of the Amalgamation. See "NCO Directors", "Executive Officers of NCO", "Principal Holders of NCO Securities", "Merland Directors" and "Executive Officers of Merland".

Distribution and Conversion of Shares

Bankeno owns 11,204,984 common shares of Merland which will be distributed pursuant to the Distribution. Each holder of Bankeno common shares will retain his Bankeno common shares, and will be entitled to receive 0.396 of a Merland common share for each Bankeno common share held. The Merland common shares so distributed will be converted into common shares of Amalgamated NCO as set forth below, except for the Merland common shares distributed to NCO which will be cancelled upon the Amalgamation. See "Distribution of Merland Common Shares to Holders of Bankeno Common Shares".

Pursuant to the Amalgamation, the issued capital of each of NCO and Merland will be converted into shares of Amalgamated NCO as follows:

NCO Shares		**Amalgamated NCO Shares**
One common share	=	One common share
One 5½% Preferred Share	=	One 5½% Preferred Share
Class A Preferred Shares		Class A Preferred Shares
One Series 1	=	One Series 1
Class B Preferred Shares		Class B Preferred Shares
One Series 1	=	One Series 1
One Series 2	=	One Series 2
One Series 3	=	One Series 3

Merland Shares		**Amalgamated NCO Shares**
5.75 common shares	=	One common share
One Preferred Share, Series A	=	One Class B Preferred Share, Series 6
One Preferred Share, Series B	=	One Class B Preferred Share, Series 7

Fairness Opinion and Recommendations of the Boards of Directors

The board of directors of Bankeno considers the reduction of stated capital by way of the Distribution of the Merland common shares owned by Bankeno to holders of Bankeno common shares to be fair and in the best interest of Bankeno and its shareholders, and recommends that the shareholders of Bankeno vote in favour of the Distribution.

The board of directors of each of NCO and Merland considers the share exchange ratio pursuant to the Amalgamation to be fair and in the best interest of their respective corporations and shareholders, and recommends that the shareholders vote in favour of the Amalgamation.

NCO and Merland have retained Wood Gundy Inc. to provide an independent opinion as to the fairness of the Amalgamation to their respective shareholders. Wood Gundy Inc. has delivered to the board of directors of each of NCO and Merland its written opinion dated April 29, 1986 as set forth in Appendix II, which states that, subject to the qualifications set forth therein, the Amalgamation is fair and reasonable to the shareholders of each of NCO and Merland.

Certificates and Listing

No certificates for Merland common shares will be issued to Bankeno shareholders in respect of the Distribution of the Merland common shares. After the Effective Date Bankeno shareholders entitled to common shares of Amalgamated NCO pursuant to the Distribution and the Amalgamation will be furnished with a letter of transmittal. On return of a properly completed letter of transmittal Amalgamated NCO will issue and forward certificates representing the appropriate number of common shares of Amalgamated NCO to shareholders so entitled. Certificates representing NCO shares outstanding on the Effective Date will be deemed to represent the shares of Amalgamated NCO into which such NCO shares are converted pursuant to the Amalgamation. After the Effective Date shareholders of Merland will be entitled to receive, upon first tendering their certificates for Merland shares, a certificate for the shares of Amalgamated NCO to which they are entitled.

The Toronto Stock Exchange ("TSE") and the Montreal Exchange ("MSE") have each conditionally approved the listing of the Amalgamated NCO common shares, the Amalgamated NCO 5½% Preferred Shares, the Amalgamated NCO Class B Series 3 Shares, the Amalgamated NCO Class B Series 6 Shares and the Amalgamated NCO Class B Series 7 Shares, subject to Amalgamated NCO fulfilling all of the requirements of such exchanges. Application is being made to the American Stock Exchange ("AMEX") for the listing of the Amalgamated NCO common shares.

Selected Financial Information of Bankeno

The following table summarizes selected financial information of Bankeno before the Distribution and pro forma after giving effect to the Distribution. See "Consolidated Financial Statements of Bankeno" and "Pro Forma Financial Information and Per Share Data of Bankeno".

	Before Distribution	Pro forma After Distribution
As at March 31, 1986	($,000's except share data)	
Working capital (deficiency)	(16,603)	(7,824)
Investments	11,799	16,868
Property, plant and equipment	297,821	43,278
Total assets	331,418	64,027
Long term debt	88,636	4,474
Minority interest	57,971	—
Shareholders' equity	87,637	45,537
Number of issued common shares	28,270,721	28,270,721
For the three months ended March 31, 1986		
Revenues	18,355	1,596
Net earnings	485	279
Net earnings per common share	.02	.01
For the year ended December 31, 1985		
Revenues	69,174	7,889
Net earnings (loss)	(629)	856
Net earnings (loss) per common share	(.02)	.03

Selected Asset Information of Bankeno as at December 31, 1985

The following table summarizes certain selected asset information of Bankeno before the Distribution and pro forma after giving effect to the Distribution.

	Before Distribution	Pro forma After Distribution
	(,000's)	
Oil and gas reserves (1)		
Proved		
Crude oil and natural gas liquids (,000's bbls)	2,113.1(2)	1,067.1
Natural gas (bcf)	256.1(2)	36.1
Present worth discounted at 15%	$148,186(2)	$23,761
Present worth discounted at 20%	$122,162(2)	$19,488
Probable additional		
Crude oil and natural gas liquids (,000's bbls)	622.5(2)	320.5
Natural gas (bcf)	46.2(2)	19.2
Present worth discounted at 15%	$ 11,582(2)	$ 5,889
Present worth discounted at 20%	$ 7,777(2)	$ 3,933
Undeveloped lands (1)		
Gross (,000's acres)	917(2)	359
Net (,000's acres)	287(2)	69
Estimated fair market value	$ 22,748(2)	$ 5,761
Interest in Polaris Mine (3)		
Cost	$ 8,990	$ 8,990
Present worth discounted at 12½%	$ 42,000	$42,000
Present worth discounted at 15%	$ 32,000	$32,000
Interest in 142433 Canada Ltd.	—	$ 5,069
Interest in Panarctic (4)	$ 2,724	$ 2,724

(1) Based on the D & S Bankeno Report and the D & S Merland Report. Present worth amounts are prior to Alberta Royalty Tax Credit, PGRT credit, and provision for income tax and are based on constant price assumptions. See "Petroleum and Natural Gas Reserves of Bankeno", "Undeveloped Land Holdings of Bankeno", "Petroleum and Natural Gas Reserves of Merland" and "Undeveloped Land Holdings of Merland".

(2) Includes 53% of Merland.

(3) Based on the Wright Report. Present worth amounts are after provision for income tax and are based on escalated price assumptions. See "Interest of Bankeno in Polaris Mine".

(4) Based on net cost to Bankeno. See "Interest of Bankeno in 142433 Canada Ltd." and "Interest of Bankeno in Panarctic".

Selected Financial Information of NCO and Merland

The following table summarizes selected financial information of NCO and Merland before the Amalgamation and pro forma after giving effect to the Amalgamation. See "Consolidated Financial Statement of NCO", "Consolidated Financial Statements of Merland" and "Pro Forma Financial Information and Per Share Data of Amalgamated NCO".

	NCO	Merland	Pro forma Amalgamated NCO
		($,000's except share data)	
As at March 31, 1986			
Working capital	217,258	(9,432)	222,327
Oil, gas and mining properties and equipment	450,588	226,712	448,128
Total assets	797,097	252,212	799,706
Long term debt	302,770	72,662	291,270
Minority interest	70,053	—	6,101 (1)
Shareholders' equity	295,508	88,156	379,140
For the three months ended March 31, 1986			
Revenues (after royalties)	40,229	16,841	40,311
Net income	6,378	2,515	7,366
Net income per common share			
— basic	0.42	0.06	0.34
— fully diluted	0.33	—	0.29 (3)
Number of issued common shares			
— basic	10,906,239	20,977,154	12,866,872
— fully diluted	15,263,382 (3)	—	17,224,015 (3)
For the year ended December 31, 1985			
Revenues (after royalties)	149,557	61,544	149,816
Net income	22,966	5,531	28,009
Net income per common share			
— basic	1.21	0.07	1.11
— fully diluted	1.10 (2)	—	1.04 (2)
Number of issued common shares			
— basic	10,821,739	21,152,154	12,782,372
— fully diluted	17,479,714 (2)	—	19,440,347 (2)

(1) Minority interest after Amalgamation represents the minority shareholders' 13.4% interest in Bankeno.

(2) Includes, on a weighted average basis, 6,657,975 common shares issuable, in the aggregate, upon the conversion of outstanding NCO Class B Series 1, 2 and 3 Shares and 8% convertible debentures.

(3) Includes, on a weighted average basis, 4,357,143 common shares issuable, in the aggregate, upon the conversion of Amalgamated NCO Class B Series 1 and 8% convertible debentures.

Selected Asset Information of NCO and Merland

The following table summarizes selected asset information of NCO and Merland before the Amalgamation and pro forma after giving effect to the Amalgamation.

	NCO	Merland	Pro forma Amalgamated NCO
		(,000's except well and production data)	
As at December 31, 1985			
Oil and gas reserves			
Proved			
Crude oil and natural gas liquids (,000's bbls)	4,079.8 (1)	1,973.5 (2)	5,125.8 (3)
Natural gas (bcf)	559.6 (1)	415.1 (2)	779.6 (3)
Present worth discounted at 15%	$317,034 (1)	$234,765 (2)	$441,459 (3)
Present worth discounted at 20%	$260,323 (1)	$193,725 (2)	$362,997 (3)
Probable additional			
Crude oil and natural gas liquids (,000's bbls)	924.5 (1)	569.8 (2)	1,226.5 (3)
Natural gas (bcf)	100.2 (1)	50.9 (2)	127.2 (3)
Present worth discounted at 15%	$ 22,594 (1)	$ 10,742 (2)	$ 28,287 (3)
Present worth discounted at 20%	$ 14,640 (1)	$ 7,253 (2)	$ 18,492 (3)
Undeveloped lands			
Gross (,000's acres)	1,460 (1)	1,054 (2)	2,018 (3)
Net (,000's acres)	548 (1)	412 (2)	767 (3)
Estimated fair market value	$ 40,413 (1)	$ 32,051 (2)	$ 57,400 (3)
Interest in Polaris Mine (4)			
Cost	$ 7,821		$ 7,821
Present worth discounted at 12½%	$ 37,000		$ 37,000
Present worth discounted at 15%	$ 28,000		$ 28,000
Valuation of other assets (5)	$ 17,370		$ 17,370
Wells			
Gas			
Gross	1,768 (6)	1,342	2,493 (7)
Net	1,499 (6)	950	2,012 (7)
Oil			
Gross	236 (6)	159	322 (7)
Net	100 (6)	100	154 (7)
Developed acreage			
Gross	970 (6)	1,119	1,574 (7)
Net	584 (6)	500	854 (7)
During the year ended December 31, 1985			
Production			
Gas (mmcf)	34,168 (6)	26,339	48,391 (7)
Oil (bbls)	534,494 (6)	359,769	729,169 (7)
Wells drilled			
Gross	205 (6)(8)	144	283 (7)(9)
Net	109 (6)(8)	81	153 (7)(9)

(1) Includes 87% of Bankeno and 46% of Merland. Based upon the D & S NCO Report and D & S Bankeno Report. Present worth amounts are prior to Alberta Royalty Tax Credit, PGRT credit, and provision for income tax, and are based on constant price assumptions. See "Petroleum and Natural Gas Reserves of NCO", "Undeveloped Land Holdings of NCO", "Petroleum and Natural Gas Reserves of Bankeno" and "Undeveloped Land Holdings of Bankeno".

(2) Based on D & S Merland Report. Present worth amounts are prior to Alberta Royalty Tax Credit, PGRT credit, and provision for income tax and are based on constant price assumptions. See "Petroleum and Natural Gas Reserves of Merland", and "Undeveloped Land Holdings of Merland".

(3) Includes 100% of Merland and 87% of Bankeno. Based on the D & S NCO Report, the D & S Merland Report and the D & S Bankeno Report. See "Petroleum and Natural Gas Reserves of NCO", Undeveloped Land Holdings of NCO", "Petroleum and Natural Gas Reserves of Merland", "Undeveloped Land Holdings of Merland", "Petroleum and Natural Gas Reserves of Bankeno" and "Undeveloped Land Holdings of Bankeno".

(4) Includes 87% of Bankeno's interest in the Polaris Mine and is based on the Wright Report. Present worth amounts are after provision for income tax and are based on escalated price assumptions. See "Interest of Bankeno in Polaris Mine".

(5) Includes 87% of Bankeno's interest in Panarctic (based on net cost to Bankeno); and NCO's interest in Wabamun-Hinton pipeline; see "Interest of Bankeno in Panarctic" and "Natural Gas Pipelines of NCO".

(6) Includes 87% of Bankeno and 46% of Merland.

(7) Includes 100% of Merland and 87% of Bankeno.

(8) Includes 33 gross (12 net) dry wells.

(9) Includes 43 gross (16 net) dry wells.

Income Tax Consequences

To Canadian Bankeno Shareholders

On the Distribution of Merland common shares to the holders of Bankeno common shares, holders of Bankeno common shares will be deemed to have received a taxable dividend in an amount equal to the fair market value of the Merland common shares so distributed. See "Distribution of Merland Common Shares to Holders of Bankeno Common Shares — Income Tax Considerations for Canadian Bankeno Shareholders".

To United States Bankeno Shareholders

On the Distribution of Merland common shares to the holders of Bankeno common shares, United States holders of Bankeno common shares, to the extent of Bankeno's earnings and profits, will be treated as having received a taxable dividend in an amount equal to the fair market value of the Distribution to them in respect of their Bankeno common shares. The amount of any portion of the Distribution which is not so treated as a dividend will be applied to reduce basis in the holders' Bankeno common shares (but not less than zero) and any remaining excess over basis will be treated as a capital gain. See "Distribution of Merland Common Shares to Holders of Bankeno Common Shares — Income Tax Considerations for United States Bankeno Shareholders".

To Canadian NCO and Merland Shareholders

On the Amalgamation, the holders of shares in the capital of NCO and Merland (other than NCO and persons for whom the shares are not capital property) shall be deemed to have disposed of their former shares for proceeds of disposition equal to the adjusted cost base of such former shares and to have acquired shares of Amalgamated NCO for which their former shares were converted at a cost equal to the adjusted cost base of their former shares. See "Amalgamation of North Canadian Oils Limited and Merland Explorations Limited — Income Tax Considerations for Canadian NCO and Merland Shareholders".

To United States NCO and Merland Shareholders

There are no controlling precedents with respect to the treatment of the Amalgamation. In the case of United States NCO shareholders it would appear that the exchange of their NCO shares for Amalgamated NCO shares should be treated as being made in a tax free reorganization although the Internal Revenue Service might maintain that it is a taxable exchange. In the event of treatment as a reorganization certain United States NCO shareholders will be required to file a Section 367(b) Notice with the Internal Revenue Service. With respect to United States shareholders of Merland, it would appear that the exchange of their Merland shares for Amalgamated NCO shares would be treated as a taxable exchange. See "Amalgamation of North Canadian Oils Limited and Merland Explorations Limited — Income Tax Considerations for United States NCO and Merland Shareholders".

Effective Date

The Amalgamation will become effective on the Effective Date, which is anticipated to be July 1, 1986, and thereupon the Distribution shall be deemed to have been effected.

Recent Market Price of NCO and Merland Common Shares

The closing price of the common shares of NCO and Merland on the TSE on April 15, 1986, which was the trading day before the proposed Amalgamation was first publicly announced, and on May 9, 1986, and the pro forma equivalent for the Merland common shares based upon 5.75 Merland common shares equals one Amalgamated NCO common share, is set forth below. See "Price Range and Trading Volume of Listed NCO Shares" and "Price Range and Trading Volume of Listed Merland Shares."

	NCO Common Shares	Merland Common Shares	Merland Shares Pro Forma
April 15, 1986	$12.00	$2.42	$13.91
May 9, 1986	12.00	1.89	10.87

Rights of Dissenting Shareholders

A dissenting shareholder of either NCO or Merland is entitled to be paid the fair value of his shares in respect of the Amalgamation in accordance with Section 184 of the CBCA. See "Amalgamation of North Canadian Oils Limited and Merland Explorations Limited — Rights of Dissenting Shareholders".

Other Matters Relating to the Amalgamation

By approving the Amalgamation, shareholders of NCO and Merland will be considered to have approved the adoption by NCO of the NCO Share Option Plan and the granting of options thereunder and to have approved the amendment of the NCO Management Share Purchase Plan to increase the number of common shares issuable under such plan to 300,000 and the granting of rights thereunder in respect of in excess of 150,000 common shares. See "NCO Share Option Plan" and "Amalgamated NCO Management Share Purchase Plan".

Accounting Procedures

Amalgamated NCO will account for the Amalgamation as a business combination using the purchase method of consolidation under generally accepted accounting principles.

SHAREHOLDERS MEETINGS — PROXY SOLICITATION INFORMATION

Solicitation of Proxies

This Proxy Circular is furnished in connection with the solicitation of proxies by management and the board of directors of each of NCO, Merland and Bankeno in respect of their respective Special Meetings of shareholders to be held on June 25, 1986 at the time and place and for the purposes set forth in the respective notices of Special Meeting accompanying this Proxy Circular. Solicitation is to be made by mail and may be made personally, by telephone or otherwise by directors, officers and employees of any of NCO, Merland or Bankeno who will not be additionally compensated therefor. Brokers, nominees or other persons holding shares in their names for others may be reimbursed for their charges and expenses in forwarding proxies and proxy material to the beneficial owners of such shares. Each of NCO, Merland and Bankeno will bear the cost of their respective solicitation. Merland has engaged Wood Gundy Inc. to solicit, at the further instruction of Merland, proxies from holders of Merland Preferred Series A Shares by mail, telephone or in person at a cost not to exceed $100,000.

Appointment and Revocation of Proxies

Shareholders will each receive a form of proxy accompanying their respective notice of Special Meeting and this Proxy Circular. Any shareholder who executes a form of proxy and delivers it to either NCO, Merland or Bankeno, as the case may be, or their registrar and transfer agent, The Royal Trust Company, 600 Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1, may revoke such appointment in any manner permitted by law including by depositing an instrument in writing, executed by such holder or his attorney duly authorized in writing, at the registered office of NCO, Merland or Bankeno, 700, 112 - 4th Avenue S.W., Calgary, Alberta, on or before the last business day preceding the date of the respective Special Meeting or any adjournment thereof, or with the Chairman of the respective Special Meeting on the day thereof or any adjournment thereof.

All properly executed forms of proxy received by any of NCO, Merland or Bankeno, as the case may be, or their registrar and transfer agent, The Royal Trust Company, 600 Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1, on or before the close of business on June 24, 1986, will be voted at the respective Special Meeting and, if a choice is specified with respect to any matters to be acted upon, will be voted in accordance with the instructions contained therein. **If no choice is specified, the proxy will be voted "FOR" the approval of the matter or matters specified in the respective notice of Special Meeting.**

The person or company submitting a form of proxy shall have the right to appoint a person to represent him or it at the respective Special Meeting other than the persons designated in the form of proxy furnished by NCO, Merland or Bankeno. Such appointment may be exercised by inserting the name of the appointed representative in the blank space provided.

Exercise of Discretion of Proxies

A proxy in favour of the persons designated by the board of directors and management will confer discretionary authority on the persons appointed with respect to amendments or variations to matters identified in the notice of Special Meeting or other business which may properly come before the respective Special Meeting. Management and the boards of directors are not aware of any such other business to be presented for action at any of the Special Meetings.

Voting Shares

Holders of record on May 19, 1986 shall be entitled to attend their respective Special Meeting and vote thereat on the basis of one vote for each share held and carrying the right to vote thereat, except to the extent that (i) a shareholder has transferred the ownership of any of his shares after that date, and (ii) the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that he owns the shares and demands, not later than 10 days before the respective Special Meeting, that his name be included in the list of shareholders entitled to vote at the respective Special Meeting, in which case, the transferee shall be entitled to vote his shares at the respective Special Meeting. The registers of transfers will not be closed.

Special Meetings

The following is certain information with respect to each of the Special Meetings.

Bankeno Special Meeting

The Bankeno Special Meeting will be held for the following purposes:

1. To receive and consider the comparative consolidated financial statements of Bankeno for the fiscal year ended December 31, 1985 and the report of the auditors thereon.

2. To elect directors for the ensuing year. The term of office for each director is from the date of the meeting at which he is elected until the annual meeting next following or until his successor is elected or appointed. The term of office of the current members of the board of directors expires at the Special Meeting, at which a board of five directors is to be elected. It is the intention of management to nominate those persons set forth below as directors of Bankeno for the ensuing year. Management has been informed that each of the proposed nominees listed below is willing to serve as a director if elected. The proposed nominees are as follows:

Douglas A. Cox	David W. Kerr
Norman R. Gish	Willard J. L'Heureux, Q.C.
Frederick H. Hemming	

   For certain information with respect to such proposed nominees see "Bankeno Directors" and "Remuneration of Directors and Officers of Bankeno".

3. To appoint an auditor for the fiscal year ending December 31, 1986. Management proposes that Touche Ross & Co. be appointed auditor for such period. Touche Ross & Co. was originally appointed the auditor of Bankeno for the fiscal year ended December 31, 1985 and has served as auditor since that time.

4. To consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, to reduce the stated capital of Bankeno by the amount of $41,798,000 by distributing the 11,204,984 Merland common shares held by Bankeno to Bankeno shareholders, pro rata, effective on the Amalgamation, in accordance with the provisions of the Distribution Agreement. See "Distribution of Merland Common Shares to Holders of Bankeno Common Shares".

5. To consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, to reduce the stated capital of Bankeno by the amount of $157,664,000. This reduction of stated capital will be reflected in the shareholders' equity on the balance sheet of Bankeno by applying $157,664,000 of the deficit account against the share capital account thereby reducing the stated capital account by that amount. The deficit account arose in connection with the "write down" of the book value of the assets of Bankeno during 1983, because the carrying value at which the natural resource assets of Bankeno were recorded on Bankeno's financial statements did not reflect their recoverable value.

There are presently issued and outstanding 28,270,721 common shares carrying the right to vote at the Bankeno Special Meeting on the basis of one vote per share. To the best of the knowledge of the directors and officers of Bankeno, the only person, firm or corporation that beneficially owns or exercises control or direction over shares carrying more than 5% of the votes attached to all of the issued and outstanding common shares of Bankeno is NCO, which owns 24,476,880 common shares representing 86.6% of the common shares. NCO intends to vote in favour of the approval of the foregoing matters.

NCO Special Meeting

At the NCO Special Meeting all of the shareholders of NCO will be asked to consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, approving the Amalgamation. There are presently issued and outstanding the following shares of NCO, all of which carry the right to vote on the special resolution to approve the Amalgamation at the NCO Special Meeting on the basis of one vote per share.

Class of Share	Number Issued
Common shares	10,906,239
5½% Preferred Shares	15,546
Class A Preferred Shares — Series 1	2,000,000
Class B Preferred Shares	
— Series 1	1,000,000
— Series 2	800,000
— Series 3	2,158,545

To the best of the knowledge of the directors and officers of NCO, the following table sets forth the respective share ownership of the persons, firms or corporations that beneficially own or exercise control or direction over shares carrying more than 5% of the votes attached to each class of shares of NCO entitled to vote at the NCO Special Meeting:

Name	Number and Class	Percentage of Votes Attaching to Shares of Class	Percentage of Votes Attaching to all Shares
Hees International Corporation Toronto, Ontario	4,006,703 common 1,000,000 Class B Series 1	37% 100%	24% 6%
Canadian Imperial Bank of Commerce Toronto, Ontario	2,000,000 Class B Series 3	93%	12%
James F. Kay Toronto, Ontario	2,134,500 common	20%	13%
Continental Bank of Canada Toronto, Ontario	800,000 Class B Series 2	100%	5%
Trilon Equities Limited Toronto, Ontario	800,000 Class A Series 1	40%	5%
Contin & Co. Toronto, Ontario	400,000 Class A Series 1	20%	2%
Epsim Investments Limited Toronto, Ontario	400,000 Class A Series 1	20%	2%
Joseph and Rose Shapiro Calgary, Alberta	3,648 5½% Preferred	23%	—

NCO Common Share Special Meeting

NCO is currently authorized to issue 10,000,000 NCO Class A Preferred Shares, 10,000,000 NCO Class B Preferred Shares, 20,000,000 NCO Class A Shares and 20,000,000 common shares. Pursuant to the Amalgamation, Amalgamated NCO will be authorized to issue an unlimited number of Amalgamated NCO Class A Preferred Shares, Amalgamated NCO Class B Preferred Shares, Amalgamated NCO Special Non Voting Shares and common shares. As a result of these changes, the holders of common shares of NCO are entitled to vote separately as a class in respect of the Amalgamation. See "Comparison of Shareholders' Rights". At the NCO Common Share Special Meeting the holders of common shares of NCO will be asked to consider and, if thought fit, approve a special resolution, by a majority of 75% of the votes cast, approving the Amalgamation. There are 10,906,239 common shares of NCO issued and outstanding all of which carry the right to vote at the NCO Common Share Special Meeting on the basis of one vote per share. For certain information with respect to the holders of common shares of NCO see "NCO Special Meeting" and "Principal Holders of NCO Shares".

NCO Class A Special Meeting

NCO is currently authorized to issue 10,000,000 NCO Class A Preferred Shares of which 2,000,000 are designated and issued as NCO Class A Series 1 Shares. Pursuant to the Amalgamation, Amalgamated NCO will be authorized to issue an unlimited number of Amalgamated NCO Class A Preferred Shares. As a result of this change, the holders of NCO Class A Series 1 Shares are entitled to vote separately in respect of the

Amalgamation. See "Comparison of Shareholders' Rights". At the NCO Class A Special Meeting the holders of the NCO Class A Series 1 Shares will be asked to consider and, if thought fit, approve a special resolution, by a majority of 75% of the votes cast, approving the Amalgamation. There are 2,000,000 NCO Class A Series 1 Shares issued and outstanding all of which carry the right to vote at the NCO Class A Special Meeting on the basis of one vote per share. For certain information with respect to the holders of NCO Class A Series 1 Shares see "NCO Special Meeting".

NCO Class B Special Meeting

NCO is currently authorized to issue 10,000,000 NCO Class A Preferred Shares and 10,000,000 NCO Class B Preferred Shares. Pursuant to the Amalgamation, Amalgamated NCO will be authorized to issue an unlimited number of Amalgamated NCO Class A Preferred Shares and Amalgamated NCO Class B Preferred Shares. As a result of these changes, the holders of NCO Class B Preferred Shares are entitled to vote separately as a class in respect of the Amalgamation. See "Comparison of Shareholders' Rights". At the NCO Class B Special Meeting the holders of NCO Class B Preferred Shares will be asked to consider and, if thought fit, approve a special resolution, by a majority of 75% of the votes cast, approving the Amalgamation. There are 3,958,545 NCO Class B Preferred Shares issued and outstanding all of which carry the right to vote at the NCO Class B Special Meeting on the basis of one vote per share. For certain information with respect to the holders of the NCO Class B Preferred Shares see "NCO Special Meeting".

Merland Common Share Special Meeting

At the Merland Common Share Special Meeting, the holders of common shares of Merland will be asked to consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, approving the Amalgamation. There are 20,977,154 common shares of Merland issued and outstanding all of which carry the right to vote at the Merland Common Share Special Meeting on the basis of one vote per share. To the best of the knowledge of the directors and officers of Merland, the only person, firm or corporation that beneficially owns or exercises control or direction over shares carrying more than 5% of the votes attached to all of the issued and outstanding common shares of Merland is Bankeno which holds 11,204,984 common shares representing 53% of the common shares.

Merland Preferred A Special Meeting

As a result of certain changes to the rights of holders of Merland Preferred Series A Shares the holders thereof are entitled to vote separately in respect of the Amalgamation. See "Comparison of Shareholders' Rights". At the Merland Preferred A Special Meeting the holders of Merland Preferred Series A Shares will be asked to consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, approving the Amalgamation. There are 1,303,788 Merland Preferred Series A Shares issued and outstanding all of which carry the right to vote at the Merland Preferred A Special Meeting on the basis of one vote per share. To the best of the knowledge of the directors and officers of Merland, the only person, firm or corporation that beneficially owns or exercises control or direction over shares carrying more than 5% of the votes attached to all of the issued and outstanding Merland Preferred Series A Shares is Sun Life Insurance Company of Canada which holds 138,500 Merland Preferred Series A Shares representing 11% of the Merland Preferred Series A Shares.

Merland Preferred B Special Meeting

As a result of certain changes to the rights of holders of Merland Preferred Series B Shares the holders thereof are entitled to vote separately in respect of the Amalgamation. See "Comparison of Shareholders' Rights". At the Merland Preferred B Special Meeting the holders of the Merland Preferred Series B Shares will be asked to consider and, if thought fit, approve a special resolution, by a majority of 66⅔% of the votes cast, approving the Amalgamation. There are 1,100,355 Merland Preferred Series B Shares issued and outstanding, all of which carry the right to vote at the Merland Preferred B Special Meeting on the basis of one vote per share. To the best of the knowledge of the directors and officers of Merland, the only persons, firms or corporations that beneficially own or exercise control or direction over shares carrying more than 5% of the votes attached to all of the issued and outstanding Merland Preferred Series B Shares are 142433 Canada Ltd., which holds 606,734 Merland Preferred Series B Shares, and Mortgage Insurance Company of Canada which holds 62,400 representing, respectively, 55% and 6%, of the Merland Preferred Series B Shares.

DISTRIBUTION OF MERLAND COMMON SHARES TO HOLDERS OF BANKENO COMMON SHARES

Bankeno currently owns, directly, beneficially and of record, 11,204,984 Merland common shares, representing approximately 53% of the issued and outstanding common shares of Merland. It is proposed that the stated capital of Bankeno be reduced pursuant to section 36(1)(b) of the Business Corporations Act of Alberta ("BCA") by the amount of $41,798,000 and that such amount be distributed to the holders of Bankeno common shares by the pro rata distribution of the 11,204,984 Merland common shares held by Bankeno on the basis of 0.396 of a Merland common share for each Bankeno common share held. Pursuant to the Distribution Agreement, upon the Amalgamation becoming effective on the Effective Date, which is expected to be July 1, 1986, the Distribution shall be deemed to have been effected, and the holders of record of the common shares of Bankeno at the close of business on June 27, 1986 shall be deemed to be holders of record of the Merland common shares so distributed for the purposes of the Amalgamation. Accordingly, Bankeno shareholders would continue to hold their Bankeno common shares, and in addition, for each Bankeno common share held, a Bankeno shareholder would receive 0.069 of an Amalgamated NCO common share. As a result of the Distribution, NCO will acquire 9,703,516 Merland common shares, representing approximately 46% of the issued and outstanding common shares of Merland, which common shares will be cancelled upon the Amalgamation. NCO will retain its ownership of approximately 87% of the common shares of Bankeno.

Bankeno is governed by the BCA, which prohibits a reduction of the stated capital of Bankeno if there are reasonable grounds for believing that:

(a) Bankeno is, or would after the reduction be, unable to pay its liabilities as they become due; or

(b) the realizable value of Bankeno's assets would thereby be less than the aggregate of its liabilities.

Bankeno and its board of directors have determined that neither of the circumstances referenced in (a) or (b) above would apply after the proposed reduction of stated capital and Distribution of the Merland common shares. The BCA also provides that a creditor of Bankeno may, within two years of the Distribution, apply to the Court for an order compelling a shareholder of Bankeno to whom Merland common shares were distributed contrary to (a) or (b) above to return such Merland common shares to Bankeno.

Reasons for the Distribution

The board of directors of Bankeno has determined that the Distribution is in the best interests of Bankeno and its shareholders. The board of directors believes that the value of the Merland common shares held by Bankeno is not adequately reflected in the value of the shares of Bankeno. The Distribution will allow shareholders of Bankeno to participate directly in the benefits arising out of the Amalgamation. After the Distribution Bankeno will retain its current interests in oil and natural gas properties as well as its 25% royalty interest in the Polaris Mine. These assets will be used as a base to expand Bankeno's natural resource operations through internal growth and acquisitions and thus Bankeno can be viewed as an operating company rather than as a holding company for the investment in Merland.

Certificates and Fractional Shares

No certificates for Merland common shares will be issued to Bankeno shareholders in respect of the distributed Merland common shares. Pursuant to the Distribution Agreement the Distribution will be effected by recording details of the transfer of the Merland common shares under the Distribution in the registry for Merland common shares. After the Effective Date of the Amalgamation Bankeno shareholders entitled to common shares of Amalgamated NCO pursuant to the Distribution and the Amalgamation will be furnished with a letter of transmittal. On return of a properly completed letter of transmittal Amalgamated NCO will issue and forward certificates representing the appropriate number of common shares of Amalgamated NCO to shareholders so entitled. Any fractional Merland common shares to which a Bankeno shareholder may be entitled upon the Distribution will be reflected in determining the number of Amalgamated NCO common shares received by such Bankeno shareholder pursuant to the Amalgamation.

Shareholders' Approval

The Distribution of the Merland common shares owned by Bankeno to the holders of Bankeno common shares must be approved at the Bankeno Special Meeting by special resolution of the shareholders of Bankeno passed by a majority of not less than 66⅔% of the votes cast.

Effect of the Distribution of Merland Common Shares

Bankeno currently owns, directly, beneficially and of record, approximately 53% of the issued and outstanding Merland common shares. On that basis, Merland constitutes a subsidiary of Bankeno and its financial statements are consolidated with those of Bankeno. After the Distribution of the Merland common shares to the shareholders of Bankeno, Merland will cease to be a subsidiary of Bankeno and the financial statements of Merland will cease to be consolidated with those of Bankeno. The consolidated financial statements of Bankeno currently reflect the interest of Bankeno in its assets (principally its interests in the Polaris Mine, 142433 Canada Ltd. and Panarctic, as well as oil and natural gas assets) and its ownership of Merland common shares. After the Distribution and the Amalgamation, the shareholders of Bankeno will hold Bankeno common shares and Amalgamated NCO common shares. For information relating to Bankeno, its assets, business and affairs see "Bankeno Mines Limited". For information relating to Merland, its assets, business and affairs see "Merland Explorations Limited".

Selected Asset Information of Bankeno

The following table summarizes certain selected asset information of Bankeno before the Distribution and pro forma after giving effect to the Distribution.

	Before Distribution	Pro forma After Distribution
	(,000's)	
As at December 31, 1985		
Oil and gas reserves (1)		
Proved		
Crude oil and natural gas liquids (,000's bbls)	2,113.1 (2)	1,067.1
Natural gas (bcf)	256.1 (2)	36.1
Present worth discounted at 15%	$148,186 (2)	$23,761
Present worth discounted at 20%	$122,162 (2)	$19,488
Probable additional		
Crude oil and natural gas liquids (,000's bbls)	622.5 (2)	320.5
Natural gas (bcf)	46.2 (2)	19.2
Present worth discounted at 15%	$ 11,582 (2)	$ 5,889
Present worth discounted at 20%	$ 7,777 (2)	$ 3,933
Undeveloped lands (1)		
Gross (,000's acres)	917 (2)	359
Net (,000's acres)	287 (2)	69
Estimated fair market value	$ 22,748 (2)	$ 5,761
Interest in Polaris Mine (3)		
Cost	$ 8,990	$ 8,990
Present worth discounted at 12½%	$ 42,000	$42,000
Present worth discounted at 15%	$ 32,000	$32,000
Interest in 142433 Canada Ltd. (4)	—	$ 5,069
Interest in Panarctic (4)	$ 2,724	$ 2,724

(1) Based on the D & S Bankeno Report and the D & S Merland Report. Present worth amounts are prior to Alberta Royalty Tax Credit, PGRT credit, and provision for income tax and are based on constant price assumptions. See "Petroleum and Natural Gas Reserves of Bankeno", "Undeveloped Land Holdings of Bankeno", "Petroleum and Natural Gas Reserves of Merland" and "Undeveloped Land Holdings of Merland".

(2) Includes 53% of Merland.

(3) Based on the Wright Report. Present worth amounts are after provision for income tax and are based on escalated price assumptions. See "Interest of Bankeno in Polaris Mine".

(4) Based on net cost to Bankeno. See "Interest of Bankeno in 142433 Canada Ltd." and "Interest of Bankeno in Panarctic".

Pro Forma Financial Information and Per Share Data of Bankeno

The accompanying unaudited pro forma consolidated balance sheet as at March 31, 1986 and the unaudited consolidated pro forma statements of earnings (loss) for the three months ended March 31, 1986 and the year ended December 31, 1985 illustrate on a pro forma basis the effect of the Distribution of Bankeno's investment in common shares of Merland to its shareholders by way of a reduction of capital together with the pro forma effect of certain other related transactions as described in the notes thereto. These statements have been prepared by Bankeno and, Touche Ross & Co., auditors of Bankeno, have provided a compilation report thereon.

BANKENO MINES LIMITED

PRO FORMA CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1986

(thousands of Canadian dollars)
(unaudited)

		Adjustments (Notes 1 - 4)			
	Bankeno	Deduct Merland		Other add (deduct)		Pro forma Bankeno
ASSETS						
Current						
Accounts receivable	$ 20,690	$ 24,465	(2f)	8,236 (2d)	(653)	$ 3,808
Prepaid expenses	484	411				73
	21,174	24,876				3,881
			(2e)	5,069 (2e)	(16,569)	
Investments	11,799	—	(2b)	58,367 (2c)	(41,798)	16,868
Oil and gas properties	297,821	226,712	(2d)	356 (2d)	(28,187)	43,278
Other assets	624	624				—
	$331,418	$252,212				$64,027
LIABILITIES						
Current						
Accounts payable	$ 27,607	$ 24,160			(2f) 8,236	$11,683
Current portion of deferred revenue	3,097	3,075				22
Current portion of long-term debt	7,073	7,073				—
	37,777	34,308				11,705
Deferred revenue	21,938	21,739				199
Long-term debt	88,636	72,662	(2e)	(11,500)		4,474
Deferred income taxes	37,459	35,347				2,112
Minority interest	57,971	—	(2d)	(57,971)		—
SHAREHOLDERS' EQUITY						
Share capital						
Preferred shares	—	60,104	(2d)	60,104		—
Common shares	244,999	32,351	(2c)	(41,798)	(2d) 32,351	45,537
			(4)	(157,664)		
Retained earnings (deficit)	(157,362)	(4,299)	(4)	157,664 (2d)	(4,601)	—
	87,637	88,156				45,537
	$331,418	$252,212				$64,027

BANKENO MINES LIMITED

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 1986

(thousands of Canadian dollars)
(unaudited)

		Adjustments (Notes 1 - 4)		
	Bankeno	Deduct Merland	Other add (deduct)	Pro forma Bankeno
Revenue				
Oil and gas, net	$ 18,355	$ 16,841		$ 1,514
Investment and other income	—	—	(3a) 82	82
	18,355	16,841		1,596
Expenses				
Operating	3,033	2,833		200
General and administrative	1,282	1,175		107
Interest	2,698	2,213	(3b) (316)	169
Depreciation and depletion	6,192	5,425	(3c) (356)	411
	13,205	11,646		887
Earnings before taxes and minority interest	5,150	5,195		709
Income and resource taxes	2,996	2,680	(3d) 114	430
Earnings before minority interest	2,154	2,515		279
Minority interest	1,669	—	(3e) (1,669)	—
Net earnings	$ 485	$ 2,515		$ 279
Earnings per common share	$ .02	$ .06		$ .01
Book value per common share	$ 3.10	$ 1.34		$ 1.61
Number of common shares	28,270,721	20,977,154		28,270,721

BANKENO MINES LIMITED

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 1985

(thousands of Canadian dollars)
(unaudited)

		Adjustments (Notes 1 - 4)		
	Bankeno	Deduct Merland	Other add (deduct)	Pro forma Bankeno
Revenue				
Oil and gas, net	$ 69,174	$ 61,544		$ 7,630
Investment and other income	—	—	(3a) 259	259
	69,174	61,544		7,889
Expenses				
Operating	15,120	13,531		1,589
General and administrative	4,996	3,721		1,275
Interest	11,095	10,002	(3b) (813)	280
Depreciation and depletion	22,820	18,692	(3c) (1,973)	2,155
	54,031	45,946		5,299
Earnings before taxes and minority interest	15,143	15,598		2,590
Income and resource taxes	11,508	10,067	(3d) 293	1,734
Earnings before minority interest	3,635	5,531		856
Minority interest	4,264	—	(3e) (4,264)	—
Net earnings (loss)	$ (629)	$ 5,531		$ 856
Earnings (loss) per common share	$ (.02)	$ .07		$ .03
Book value per common share	$ 3.08	$ 1.26		$ 1.60
Number of common shares	28,270,721	21,152,154		28,270,721

BANKENO MINES LIMITED

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The unaudited pro forma consolidated financial statements were prepared from:

   (a) The unaudited consolidated balance sheet at March 31, 1986, the unaudited consolidated statement of earnings (loss) for the three months ended March 31, 1986 and the consolidated statement of earnings (loss) for the year ended December 31, 1985 of Bankeno which includes Bankeno's 53% interest in Merland.

   (b) The unaudited consolidated balance sheet at March 31, 1986, the unaudited consolidated statement of earnings for the three months ended March 31, 1986 and the consolidated statement of earnings for the year ended December 31, 1985 of Merland.

2. The unaudited pro forma consolidated balance sheet at March 31, 1986 gives effect to the following transactions and assumptions for the reduction of the stated capital of Bankeno by way of the distribution of Bankeno's 53% investment in common shares of Merland to its shareholders as if the distribution had occurred on March 31, 1986:

   (a) The balance sheet accounts of Bankeno at March 31, 1986 are reduced by the balance sheet accounts of Merland at March 31, 1986.

   (b) The recording of Bankeno's investment in preferred and common shares of Merland in the amount of $16,569,000 (cost basis) and $41,798,000 (equity basis) respectively.

   (c) The elimination of Bankeno's investment in common shares of Merland in the amount of $41,798,000 by a reduction of the stated value of the common shares of Bankeno as a result of the resolution to be proposed at the special meeting of shareholders.

   (d) The elimination of the purchase price discrepancy in the amount of $28,187,000 allocated to oil and gas properties at the time Bankeno acquired Merland in March 1982 and adjustments to minority interest ($57,971,000) and share capital (preferred — $60,104,000; common — $32,351,000) as a result of the de-consolidation.

   (e) The purchase in May 1986 of 506,910 common shares (representing 30% voting interest) of 142433 Canada Ltd. for $5,069,000 and the sale of Bankeno's investment in the preferred shares, series A and B of Merland to this company for cash in the amount of $16,569,000, representing Bankeno's book value. Long term debt of Bankeno is reduced by $11,500,000 being the net amount of the cash received.

   (f) The recording of intercompany accounts at March 31, 1986 previously eliminated on consolidation as a result of the sale of oil and gas properties by Merland to Bankeno in the amount of $8,236,000.

3. The unaudited pro forma consolidated statements of earnings (loss) for the three months ended March 31, 1986 and for the year ended December 31, 1985 give effect to the transactions and assumptions stated in Note 2 as if they had occurred at the beginning of the respective fiscal periods, except for the transactions in note 2(c) which were effected May 1, 1985, being the date Bankeno acquired the Merland preferred shares. In addition, the revenue and expense amounts of Bankeno for the periods reported are reduced by the revenue and expense amounts of Merland for the same periods. The adjustments include the following:

   (a) Bankeno's 30% share of equity earnings in 142433 Canada Ltd. of $82,000 and $259,000 for the periods ended March 31, 1986 and December 31, 1985 respectively.

   (b) Reduced interest expense of $316,000 and $813,000 for the periods ended March 31, 1986 and December 31, 1985 respectively as a result of the assumed reduction in long term debt of $11,500,000 effective May 1, 1985 as set out in note 2(e).

   (c) Reduced depreciation and depletion of $356,000 and $1,973,000 for the periods ended March 31, 1986 and December 31, 1985 respectively as a result of the elimination of the purchase price discrepancy set out in note 2(d).

   (d) Increase in income taxes as a result of the reduced interest expense as set out in note 3(b).

   (e) Elimination of the minority shareholders' share of earnings and preferred share dividends of Merland for the respective periods.

4. The reorganization and reduction of share capital by $157,664,000 from deficit as a result of the resolution to be proposed at the special meeting of shareholders.

COMPILATION REPORT

The Directors
Bankeno Mines Limited

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of Bankeno Mines Limited as at March 31, 1986 and the unaudited pro forma consolidated statements of earnings (loss) for the three months ended March 31, 1986 and for the year ended December 31, 1985. In our opinion, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of earnings (loss) have been properly compiled to give effect to the transactions and the assumptions described in the accompanying notes thereto.

Calgary, Alberta
May 9, 1986

Touche Ross & Co.
Chartered Accountants

Income Tax Considerations for Canadian Bankeno Shareholders

It is impractical to comment on all aspects of federal and provincial income tax law which may affect the tax consequences to the common shareholders of Bankeno as the result of the Distribution. The income tax consequences may vary according to the circumstances of each shareholder and the province in which he resides. The provisions of provincial income tax legislation vary from province to province and, in some cases, differ from federal income tax legislation.

Each shareholder is urged to consult a tax adviser knowledgeable in these areas with reference to his own particular circumstances and the federal and provincial income tax consequences to him as the result of the Distribution.

In the opinion of MacKimmie Matthews, Canadian counsel, the following is a fair and adequate summary of certain of the federal income tax consequences to the holders of common shares of Bankeno as the result of the Distribution. This summary is based upon the provisions of the Income Tax Act (Canada), the Canadian Regulations, counsel's understanding of the current administrative practices of Revenue Canada and the provisions of the Distribution Agreement and the Amalgamation Agreement. Except where otherwise indicated, this summary does not take into account provincial income tax considerations, nor does it take into account or anticipate changes in the law (including the Tax Act (Canada) and the Regulations) whether by judicial or legislative action. In particular, it should be noted that this summary does not take into account any of the consequences under the Tax Act (Canada) as the result of the proposed Alternative Minimum Tax set forth in the Department of Finance Release dated December 4, 1985. On February 26, 1986, the Minister of Finance tabled the Motions which contain proposals to amend the Tax Act (Canada). This summary takes into account the proposed amendments set forth in the Motions, however, there is no assurance that these amendments will be enacted as proposed or at all. Income tax consequences for a shareholder who is not resident in Canada for purposes of the Tax Act (Canada) or who does not hold his Bankeno common shares as capital property are not considered. Those persons should consult their own tax advisers with respect to the tax consequences to them of the Distribution. Non-residents should also see "Income Tax Considerations for United States Bankeno Shareholders".

Upon the Distribution of the Merland common shares owned by Bankeno to its common shareholders in connection with the reduction of the stated capital of Bankeno, the fair market value of the Merland common shares received by the holders of record of the common shares of Bankeno at the close of business on June 27, 1986 shall be deemed to have been received by the holders of Bankeno common shares as a dividend. Holders of Bankeno common shares who are individuals will be required to include, in computing their respective incomes for the taxation year of receipt, 150% of the amount of the deemed dividend and will be entitled, in computing the amount of tax payable in respect of such taxation year of receipt, to a dividend tax credit equal to 34% of the amount of the deemed dividend. Such dividends will also qualify for purposes of the $1,000 maximum annual deduction for specified Canadian investment income where such individual holders of Bankeno common shares deal at arm's length with Bankeno. Generally, the Tax Act (Canada) permits a corporation to deduct dividends received from a taxable Canadian corporation when calculating its taxable income except for a dividend received by a bank, trust company, credit union, insurance company or similar "Specified Financial Institution" on a "Term Preferred Share" (both as defined in the Tax Act (Canada)) where such Term Preferred Share was acquired by such Specified Financial Institution in the ordinary course of the business carried on thereby. To the extent that such deemed dividends are so deductible, shareholders which are private corporations (as defined in the Act) and any other corporations that are controlled directly or indirectly by or for the benefit of an individual or a related group of individuals will generally be liable to pay a 25% (33-1/3% under the Motions) refundable tax under Part IV of the Tax Act (Canada) on such deemed dividends.

Each Bankeno shareholder who receives Merland shares upon the Distribution shall be deemed to have acquired such shares at a cost to him equal to the amount of the dividend deemed to have been received by him above for purposes of the Tax Act (Canada). For purposes of calculating the adjusted cost base of Merland shares to the holder of Bankeno shares immediately after the Distribution, the cost of Merland shares acquired upon the Distribution will be averaged with the adjusted cost base of all other Merland shares of the same class then owned by such Bankeno shareholder.

The Tax Act (Canada) provides that after the Distribution, each Bankeno shareholder who receives Merland common shares in respect of Bankeno common shares owned by him on the business day immediately preceding the Effective Date of the Amalgamation shall deduct the fair market value of the Merland common

shares received by him in computing the adjusted cost base of his Bankeno common shares. The amount, if any, by which the amount of such reduction exceeds the adjusted cost base of Bankeno common shares to such persons immediately prior thereto shall be deemed to be a gain from the disposition of such shares for the taxation year of the Bankeno common shareholder in which the Distribution occurs. One-half of such gain must be included in computing such shareholder's income for the taxation year in which the Distribution occurs as a taxable capital gain. In computing his taxable income under the Tax Act (Canada), a Bankeno common shareholder who is an individual and resident in Canada throughout such taxation year may be entitled to deduct an amount in respect of his cumulative lifetime taxable capital gains exemption. This exemption is phased in for taxation years between 1986 and 1990, subject to other limitations set forth more particularly in the Tax Act (Canada) as follows:

1986	—	up to $ 25,000.00 of taxable capital gains;
1987	—	up to $ 50,000.00 of taxable capital gains;
1988	—	up to $100,000.00 of taxable capital gains;
1989	—	up to $150,000.00 of taxable capital gains;
1990 and thereafter	—	up to $250,000.00 of taxable capital gains.

The amount of such gain, if any, included in computing the income of Bankeno common shareholders of record on the last business day immediately preceding the Effective Date of the Amalgamation shall thereafter be added back in computing the adjusted cost base of Bankeno common shares to such persons.

For a discussion of the income tax considerations upon Amalgamation see "Income Tax Considerations for Canadian NCO and Merland Shareholders".

Income Tax Considerations for United States Bankeno Shareholders

It is impractical to comment on all aspects of United States federal, state and local income tax law which may affect the tax consequences to the United States common shareholders of Bankeno as a result of the Distribution. The income tax consequences may vary according to the circumstances of each shareholder and the jurisdiction in which he resides. The provisions of state and local income tax legislation vary from jurisdiction to jurisdiction and, in some cases, differ from federal income tax legislation.

Each United States shareholder is urged to consult a tax adviser knowledgeable in these areas with reference to his own particular circumstances and the federal, state and local income tax consequences to him as a result of the Distribution. For purposes of the discussion which follows, a United States shareholder includes a United States citizen or resident, a United States corporation and other persons who would be subject to United States federal income tax as a result of the Distribution.

In the opinion of Jacobs Persinger & Parker, United States counsel, the Distribution of Merland common shares to a United States shareholder of Bankeno will be treated as a dividend to the extent of the earnings and profits of Bankeno in the year of the Distribution and any accumulated earnings and profits. To the extent, if any, that the amount of the Distribution exceeds such earnings and profits and thus is not treated as a dividend, it is to be applied against and reduce the basis of the United States shareholder's Bankeno common shares (but not below zero) and the excess, if any, of the amount of Distribution over the amount of such basis is to be treated as capital gain, if the Bankeno shares were a capital asset in the hands of the shareholder. Such gain will be long term or short term capital gain depending on the shareholder's holding period in respect of his Bankeno common shares. The amount of the Distribution and the United States shareholder's basis in the shares distributed will be equal to the fair market value, on the date of the Distribution, of the Merland common shares distributed, which may be determined by reference to the fair market value on that date of the Amalgamated NCO common shares into which such Merland common shares are to be converted upon the Amalgamation and any cash received in lieu of fractional shares.

In the opinion of MacKimmie Matthews, Canadian counsel, pursuant to the Tax Act (Canada), every person not resident in Canada for purposes of the Tax Act (Canada) shall pay income tax of 25% (subject to reduction by the terms of any applicable tax treaty) on every amount that a corporation resident in Canada pays or credits or is deemed to pay or credit to him as a taxable dividend. Pursuant to the Canada-U.S. Income Tax Convention (1980) (the "Treaty"), the rate of income tax payable by the beneficial owner of shares resident in the U.S. in respect of dividends from a corporation resident in Canada shall not exceed:

(a) 10% of the gross amount of the dividend if the beneficial owner is a corporation which owns at least 10% of the voting shares of the corporation paying the dividend; or

(b) 15% of the gross amount of the dividend in all other cases.

Finally, any person paying an amount to a non-resident person in respect of which income tax is payable by the non-resident person under the Tax Act (Canada) must withhold the amount of the tax and remit the same to the Receiver General for Canada on behalf of the non-resident person on account of tax payable by him.

Accordingly, in respect of each non-resident holder of Bankeno common shares, Amalgamated NCO proposes to withhold from the number of shares in its capital into which the Merland common shares otherwise required to be distributed to such non-resident holders of Bankeno common shares upon the Distribution have been converted, that number of Amalgamated NCO shares obtained by multiplying the number of Amalgamated NCO shares into which the distributed Merland common shares have been converted by the relevant percentage of income tax payable by such non-resident person under the Tax Act (Canada) on a taxable dividend from a corporation resident in Canada, subject to the terms of any applicable tax treaty. In the case of holders of Bankeno common shares who are resident in the United States, the percentage of Amalgamated NCO shares to be withheld on account of Canadian income tax payable by such persons shall be either 10% or 15%, depending upon the percentage of voting shares in the capital of Bankeno held by such person, in accordance with the provisions of the Treaty. Amalgamated NCO shall thereupon arrange for the sale of the withheld shares. The net proceeds from such sale shall be remitted to the Receiver General on account of income tax payable by the non-resident holders of Bankeno common shares in accordance with the Tax Act (Canada). An information return shall be forwarded to each non-resident holder of Bankeno common shares by March 31, 1987 setting forth, inter alia, the following information:

— the amount of dividend deemed to have been paid to such holder; and

— the amount withheld by Amalgamated NCO on account of tax payable by such holder under the Tax Act (Canada).

AMALGAMATION OF NORTH CANADIAN OILS LIMITED AND MERLAND EXPLORATIONS LIMITED

NCO and Merland have entered into the Amalgamation Agreement, a copy of which is annexed hereto as Appendix I and incorporated herein by reference. The Amalgamation Agreement provides for the Amalgamation of NCO and Merland pursuant to the CBCA and their continuation as one corporation, Amalgamated NCO, which will retain the name "North Canadian Oils Limited". Once the conditions precedent to the Amalgamation have been met and the Amalgamation becomes effective the property of each of NCO and Merland will continue to be the property of Amalgamated NCO, which will continue to be liable for the obligations of NCO and Merland.

The Amalgamation Agreement provides that the by-laws of Merland shall be adopted as the by-laws of Amalgamated NCO.

Reasons for the Amalgamation

The board of directors of each of NCO and Merland believes that Amalgamated NCO will enjoy benefits from the Amalgamation which are not presently available to NCO and Merland operating as individual entities. On a pro forma basis as at December 31, 1985 (based on the D & S Reports) Amalgamated NCO (including its interest in Bankeno) will have oil and natural gas liquids reserves of 6,352,300 barrels and natural gas reserves of 906.8 bcf. In addition, Amalgamated NCO will have 2,018,000 gross (767,000 net) acres of undeveloped lands. On a pro forma basis as at March 31, 1986, total assets of Amalgamated NCO would be $800,912,000. Revenues on a pro forma basis for the periods ended March 31, 1986 and December 31, 1985 would be $40,229,000 and $149,557,000, respectively, and net earnings per share fully diluted would be $0.29 and $1.04, respectively.

Management of NCO and Merland anticipate developing new, unified goals and business strategies for Amalgamated NCO. The substantial assets and revenues of Amalgamated NCO will give it competitive advantages afforded a large and more diversified resource corporation, such as increased potential for earnings and cash flow, which in turn will provide greater financial flexibility to finance ongoing oil and gas exploration and development activities through improved access to more attractive sources of debt financing and to the capital markets. The more substantial Amalgamated NCO will also be better able to withstand the cyclical nature of the oil and gas industry. Management also believes that Amalgamated NCO will be in a better position to avail itself of anticipated, value-oriented growth opportunities through property purchases, corporate acquisitions and corporate developments which are anticipated to be available in the industry over the next few years.

Amalgamated NCO will enjoy the cost efficiencies of combined administration through the consolidation of corporate reporting and shareholder communication costs and functions.

Authorized Capital of Amalgamated NCO

The authorized share capital of Amalgamated NCO on the Effective Date shall consist of:

20,149 Amalgamated NCO 5½% Preferred Shares;

An unlimited number of Amalgamated NCO Class A Preferred Shares, issuable in series, of which the Amalgamated NCO Class A Series 1 shares will be the only designated series thereof;

An unlimited number of Amalgamated NCO Class B Preferred Shares, issuable in series, of which the Amalgamated NCO Class B Series 1,Series 2, Series 3, Series 4, Series 5, Series 6 and Series 7 Shares will be the only designated series thereof;

An unlimited number of Amalgamated NCO Special Non Voting Shares; and

An unlimited number of common shares.

For a summary of the rights, preferences, privileges, conditions and limitations attaching to the share capital of Amalgamated NCO, see "Description of the Share Capital of Amalgamated NCO".

Conversion of Issued Capital

NCO Shares

The Amalgamation Agreement provides that the shares of all classes of NCO issued and outstanding on the Effective Date of the Amalgamation shall be converted into fully paid and non-assessable issued shares of Amalgamated NCO on the following basis:

NCO Shares		Amalgamated NCO Shares
One common share	=	One common share
One 5½% Preferred Share	=	One 5½% Preferred Share
Class A Preferred Shares		Class A Preferred Shares
One Series 1	=	One Series 1
Class B Preferred Shares		Class B Preferred Shares
One Series 1	=	One Series 1
One Series 2	=	One Series 2
One Series 3	=	One Series 3

Merland Shares

The Amalgamation Agreement provides that the shares of all classes of Merland issued and outstanding on the Effective Date of the Amalgamation shall be converted into fully paid and non-assessable issued shares of Amalgamated NCO on the following basis:

Merland Shares		Amalgamated NCO Shares
5.75 common shares	=	One common share
One Preferred Share, Series A	=	One Class B Preferred Share, Series 6
One Preferred Share, Series B	=	One Class B Preferred Share, Series 7

The 9,703,516 Merland common shares to be acquired by NCO pursuant to the Distribution will be cancelled upon the Amalgamation.

Basis for the Amalgamation

In determining the share exchange ratios for the Amalgamation, the following principal factors were taken into account:

1. The nature and values of the oil and gas reserves and undeveloped lands of each of NCO (including its interest in Bankeno) and Merland as determined in independent evaluation reports prepared by D & S effective December 31, 1985, as well as recent drilling results and future potential for exploiting prospects.
2. The financial position and earnings of each of NCO (including its interest in Bankeno but excluding its interest in Merland) and Merland as presented in their respective audited consolidated financial statements as at December 31, 1985, as well as cash flow available from each company for land and exploration expenditures. See "Consolidated Financial Statements of NCO" and "Consolidated Financial Statements of Merland".
3. The size and composition of tax pools relative to the projected future net cash flows of each of NCO (including its interest in Bankeno) and Merland.
4. Other assets of each of NCO and Merland which were not specifically evaluated in the D & S reports or included in the audited financial statements of each, including Bankeno's investment in the Polaris Mine and Panarctic as well as NCO's portfolio of investments and interest in the Wabamun-Hinton pipeline.

5. The respective obligations of each of NCO and Merland, including long term debt and issued and outstanding preferred shares.

6. The trading prices and volumes of NCO's common shares (see "Price Range and Trading Volume of Listed NCO Common Shares") and the trading prices and volumes of Merland's common shares (see "Price Range and Trading Volume of Listed Merland Common Shares").

7. The ownership by NCO (after the Distribution) of approximately 46% of the issued and outstanding Merland common shares.

8. Recent developments in oil and gas industry conditions, including the possible impact of different oil and natural gas prices than are assumed in the D & S Reports (see "Industry Regulation" and "Competition").

Directors' Approvals and Fairness Opinion

In December, 1985, the board of directors of each of NCO and Merland authorized management to initiate studies into the possibility of an amalgamation of NCO and Merland. Management reported on a preliminary basis to the board of each of Merland and NCO at meetings held on February 26 and 27, 1986, respectively. In light of the relationship between NCO and Merland, the Merland board requested Messrs. W. J. Adams and E. D. Patterson, directors of Merland who are not affiliated with NCO and its affiliates, to review on a preliminary basis possible terms for the proposed amalgamation, including share conversion ratios. In connection with this review, Messrs. Adams and Patterson had discussions with Messrs. D. W. Kerr and W. J. L'Heureux, directors of NCO who were acting on behalf of the NCO board.

At the conclusion of such preliminary discussions, the board of directors of each of NCO and Merland considered the Amalgamation at meetings held on April 16, 1986, and approved the Amalgamation in principle and the exchange ratio for the common shares. In giving such approval, the boards considered the factors set forth in "Basis for the Amalgamation".

The respective boards of directors retained Wood Gundy Inc. to provide an opinion as to the fairness of the Amalgamation. In reaching their opinion, Wood Gundy Inc., among other things, reviewed the relative performance and business characteristics of NCO and Merland against the background of the oil and gas industry in Canada, examined the audited consolidated financial statements for each of NCO and Merland, prepared and considered applicable financial ratios and statistics, examined projected financial information, reviewed share trading statistics of all listed classes of shares of NCO and Merland, and reviewed the D & S Reports, the Wright Report and an evaluation of NCO's Wabamun/Hinton pipeline system. Wood Gundy Inc. concluded that the Amalgamation is fair and reasonable to the shareholders of NCO and Merland. A copy of the opinion of Wood Gundy Inc. is attached as Appendix II to this Proxy Circular.

For providing advisory services and their opinion, Wood Gundy Inc. has been paid fees of $75,000 by each of NCO and Merland. In addition, NCO and Merland have agreed to reimburse Wood Gundy for reasonable out-of-pocket expenses and have agreed to indemnify Wood Gundy Inc. in respect of certain liabilities which they may incur in connection therewith.

Wood Gundy Inc. was selected to provide advisory services and their opinion in respect of the Amalgamation on the basis of their expertise in such matters. Over the past two years Wood Gundy Inc. has provided various financial advisory services to NCO, Merland and their respective affiliates, including Hees and its affiliates, and in addition has provided underwriting services to Hees and its affiliates, and may be expected to provide additional financial services in the future. Fees paid to Wood Gundy Inc. during the past two years for financial services to NCO and Merland, and their respective affiliates, including Hees and its affiliates, aggregated $9,500,000. Merland has engaged Wood Gundy Inc. to solicit, at the further instruction of Merland, proxies from holders of Merland Preferred Series A Shares by mail, telephone or in person at a cost not to exceed $100,000. In addition, Wood Gundy Inc., among other investment dealers, has been engaged by NCO, Merland, Hees and their respective affiliates to execute securities transactions in the ordinary course of business and has been paid normal commissions in connection therewith.

Final approval of the Amalgamation and its terms, including the exchange ratios for the preferred shares, was given by the board of directors of Merland on April 30, 1986 and of NCO on May 1, 1986.

Comparison of Shareholders' Rights

Upon the Amalgamation becoming effective, shareholders of each of NCO and Merland will become shareholders of Amalgamated NCO, and as a result certain rights of such shareholders as shareholders of NCO or Merland will change when they become shareholders of Amalgamated NCO.

Shares

The attributes attaching to the shares of Amalgamated NCO received by former NCO shareholders will be identical to the attributes attaching to their NCO shares, except that (i) the number of authorized shares of all classes of shares of NCO other than the NCO 5½% Preferred Shares will be increased to an unlimited number and (ii) additional shares ranking on a parity with or in priority to existing shares of NCO, other than the NCO 5½% Preferred Shares and NCO Class A Series 1 Shares, will be outstanding.

The attributes attaching to the common shares of Amalgamated NCO received by former holders of Merland common shares will be identical to the attributes attaching to the Merland common shares, except that additional shares ranking in priority to the common shares will be outstanding.

The attributes attaching to the Amalgamated NCO Class B Series 6 Shares received by former holders of Merland Preferred Series A Shares will differ from the attributes of the Merland Preferred Series A Shares in the following respects:

(i) The Merland Preferred Series A Shares currently rank on a parity with the Merland Preferred Series B Shares, and in priority to all other classes of Merland shares. The Amalgamated NCO Class B Series 6 Shares will rank on a parity with all other series of Amalgamated NCO Class B Preferred Shares, in priority to the Amalgamated NCO Special Non-Voting Shares and the Amalgamated NCO common shares, and subordinate to the Amalgamated NCO 5½% Preferred Shares and the Amalgamated NCO Class A Preferred Shares. The Merland Preferred Series A Shares carry the right to prevent creation or issuance of shares of any class ranking in priority thereto or, if dividends are in arrears, shares of any class ranking on a parity therewith. The Amalgamated NCO Class B Series 6 Shares carry the right to prevent creation, but not issuance, of shares ranking on a parity therewith or in priority thereto.

(ii) There are currently 2,000,000 Merland Preferred Series A Shares authorized, of which 1,303,788 are issued and outstanding. There will be 1,303,788 Amalgamated NCO Class B Series 6 Shares authorized, all of which will be issued and outstanding upon Amalgamation.

(iii) In the event eight quarterly dividends are missed, the holders of Merland First Preferred shares are entitled to elect two directors. Holders of Amalgamated NCO Class B Series 6 Shares are entitled to vote on the basis of one vote per share with the holders of other voting shares in respect of the election of directors in such circumstances.

(iv) The Amalgamated NCO Class B Series 6 Shares will be convertible into common shares of Amalgamated NCO on the same basis as the Merland Preferred Series A Shares are convertible into common shares of Merland, subject to adjustment to reflect the conversion of common shares of Merland to common shares of Amalgamated NCO pursuant to the Amalgamation.

(v) If the Merland common shares are reclassified or otherwise changed, except through subdivision or consolidation, the Merland Preferred Series A Shares' conversion rights are adjusted as the directors determine. If the Amalgamated NCO common shares are changed in such circumstances, the Amalgamated NCO Class B Series 6 Shares are entitled to receive such number of changed shares as is equivalent to their entitlement prior to the change.

(vi) The quorum for a class or series shareholders' meeting will be changed from 15% to two persons for electing a chairman, adjourning a meeting and conducting business at an adjourned meeting, and, for all other purposes, two persons holding or representing at least 25% of the issued shares entitled to vote at a meeting.

The attributes attaching to the Amalgamated NCO Class B Series 7 Shares received by former holders of Merland Preferred Series B Shares will differ from the attributes attaching to the Merland Preferred Series B Shares in the following respects:

(i) The Merland Preferred Series B Shares currently rank on a parity with the Merland Preferred Series A Shares, and in priority to all other classes of Merland shares. The Amalgamated NCO Class B Series 7 Shares will rank on a parity with all other series of Amalgamated NCO Class B Preferred Shares, in priority to the Amalgamated NCO Special Non-Voting Shares and the Amalgamated NCO common shares, and subordinate to the Amalgamated NCO 5½% Preferred Shares and the Amalgamated NCO Class A Preferred Shares. The Merland Preferred Series B Shares carry the right to prevent creation or issuance of shares of any class ranking in priority thereto or, if dividends are in arrears, shares of any class ranking on a parity therewith. The Amalgamated NCO Class B Series 7 Shares carry the right to prevent creation, but not issuance, of shares ranking on a parity therewith or in priority thereto.

(ii) There are currently 1,500,000 Merland Preferred Series B Shares authorized, of which 1,100,355 are issued and outstanding. There will be 1,100,355 Amalgamated NCO Class B Series 7 Shares authorized, all of which will be issued and outstanding upon Amalgamation.

(iii) The Amalgamated NCO Class B Series 7 Shares will be convertible into common shares of Amalgamated NCO on the same basis as the Merland Preferred Series B Shares are convertible into common shares of Merland, subject to adjustment to reflect the conversion of common shares of Merland to common shares of Amalgamated NCO pursuant to the Amalgamation.

(iv) If the Merland common shares are reclassified or otherwise changed, except through subdivision or consolidation, the Merland Preferred Series B Shares' conversion rights are adjusted as the directors determine. If the Amalgamated NCO common shares are changed in such circumstances, the Amalgamated NCO Class B Series 7 Shares are entitled to receive such number of changed shares as is equivalent to their entitlement prior to the change.

(v) The quorum for a class or series shareholders' meeting has been changed from 15% to two persons for electing a chairman, adjourning a meeting and conducting business at an adjourned meeting, and, for all other purposes, two persons holding or representing at least 25% of the issued shares entitled to vote at a meeting.

By-laws

The Amalgamation Agreement provides that Amalgamated NCO will adopt the by-laws of Merland, which differ from the by-laws of NCO in a number of respects, including the following:

(i) The Merland by-laws provide that a majority of the directors in office or such greater number as the board may determine constitute a quorum. The NCO by-laws provide that at least one-third of the number of directors (rounded up to the nearest whole number) or such lesser number (but at least three) as the board may determine shall constitute a quorum.

(ii) The Merland by-laws require in respect of shareholders meetings a quorum of two persons for electing a chairman, adjourning a meeting and conducting business at an adjourned meeting and, for all other purposes, require a quorum of two persons together holding or representing at least 25% of the issued shares entitled to vote at a meeting. The NCO by-laws require a quorum, for any meetings of shareholders, of three persons together holding or representing at least 10% of the shares entitled to vote, subject to the provisions of the Articles with respect to class votes which require a quorum of holders, representing in person or by proxy, at least a majority of the shares entitled to vote.

Effects of Increase in Authorized Share Capital

NCO is currently authorized to issue 10,000,000 NCO Class A Preferred Shares, 10,000,000 NCO Class B Preferred Shares and 20,000,000 Common Shares. Pursuant to the Amalgamation, Amalgamated NCO will be authorized to issue an unlimited number of Amalgamated NCO Class A Preferred Shares, Amalgamated NCO Class B Preferred Shares and Amalgamated NCO Common Shares.

The authority of the board of directors of Amalgamated NCO to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares in series having such rights, privileges, restrictions and conditions attaching thereto, including such voting, dividend, redemption, conversion and sinking fund rights, and rights on liquidation or dissolution as the directors may at law by resolution fix at the time of creation of each such series or as may otherwise arise at law, and the authority of the board to issue an additional unlimited number of common shares, could be used to frustrate persons seeking to effect a business combination with Amalgamated NCO. In this respect it should be noted that any series of Amalgamated NCO Class A or Class B Preferred Shares or any amount of common shares could be privately placed by the board of directors at any time or from time to time. However, so long as the concentration of ownership by Hees of Amalgamated NCO continues, it would be extremely difficult for control of Amalgamated NCO to change without Hees' concurrence, and consequently there would be no reason to use the Amalgamated NCO Class A or Class B Preferred Shares, or common shares to attempt to inhibit a change in control.

Certificates and Fractional Shares

Certificates representing NCO shares outstanding on the Effective Date will be deemed to represent the shares of Amalgamated NCO into which such NCO shares are converted pursuant to the Amalgamation. After the Effective Date shareholders will be entitled to receive, upon first tendering their certificates for Merland shares, a certificate for the shares of Amalgamated NCO to which they are entitled. Shareholders of Bankeno entitled to shares of Amalgamated NCO upon the Distribution and the Amalgamation will be provided with a letter of transmittal. On return of a properly completed letter of transmittal Amalgamated NCO will issue and forward certificates representing the appropriate number of common shares of Amalgamated NCO to shareholders so entitled.

No fractional shares or scrip certificates of Amalgamated NCO will be issued. Rather, cash will be paid to any holder otherwise entitled to receive a fractional Amalgamated NCO share in the proportion that such fraction bears to $12.00. Holders resident in the United States will be paid the equivalent in U.S. funds determined on the basis of the spot selling price at noon in Toronto, Ontario for the Canadian dollar as quoted by The Royal Bank of Canada on the Effective Date.

Shareholders' Approvals

The Amalgamation must be approved by the special resolution of holders of all classes of shares of NCO at the NCO Special Meeting passed by a majority of not less than 66⅔% of the votes cast. In addition, the holders of common shares of NCO, NCO Class A Preferred Shares and NCO Class B Preferred Shares must, in each case voting separately as a class at their respective Special Meetings, approve the Amalgamation by special resolution passed by a majority of not less than 75% of the votes cast.

The Amalgamation must be approved by the special resolution of the holders of common shares of Merland, Merland Preferred Series A Shares and Merland Preferred Series B Shares, in each case voting separately as a class or series at their respective Special Meeting, which special resolution must be passed by a majority of not less than 66⅔% of the votes cast.

Notwithstanding the approval of the Amalgamation by the shareholders of NCO or Merland, the directors of either NCO or Merland may, by resolution, agree to effect a revision or amendment to, or to terminate the Amalgamation Agreement, at any time prior to the Effective Date.

Conditions Precedent to the Amalgamation

The following are conditions precedent to the Amalgamation becoming effective.

1. The shareholders of Bankeno must approve the Distribution by special resolution, and the certificates for the distributed Merland common shares, duly endorsed for transfer, must be deposited with Merland in accordance with the Distribution Agreement.
2. The shareholders of NCO and Merland must approve the Amalgamation Agreement and the Amalgamation by the required majorities at their Special Meetings.

3. Articles of Amalgamation in prescribed form must be sent to the Director under the CBCA, together with other requisite documents; on receipt thereof the Director shall issue a Certificate of Amalgamation, and the date shown in the Certificate of Amalgamation shall be the Effective Date of the Amalgamation.

Income Tax Considerations for Canadian NCO and Merland Shareholders

It is impractical to comment on all aspects of Canadian federal and provincial income tax law which may affect the tax consequences to shareholders of NCO and Merland resident in Canada as the result of the Amalgamation. The income tax consequences may vary according to the circumstances of each shareholder and the province in which he resides. The provisions of provincial income tax legislation vary from province to province and, in some cases, differ from federal income tax legislation.

Each Canadian shareholder is urged to consult a tax adviser knowledgeable in these areas with reference to his own particular circumstances and the federal and provincial income tax consequences to him as the result of the Amalgamation.

In the opinion of MacKimmie Matthews, Canadian counsel, the following is a fair and adequate summary of certain of the federal income tax consequences to the shareholders of NCO and Merland on the Effective Date as the result of the Amalgamation. This summary is based upon the provisions of the Tax Act (Canada) the Canadian Regulations, counsel's understanding of the current administrative practices of Revenue Canada and the provisions of the Amalgamation Agreement. Except where otherwise indicated, this summary does not take into account provincial income tax considerations, nor does it take into account or anticipate changes in the law (including the Tax Act (Canada) and the Canadian Regulations) whether by judicial or legislative action. In particular, it should be noted that this summary does not take into account any of the consequences under the Tax Act (Canada) as the result of the proposed Alternative Minimum Tax set forth in the Department of Finance Release dated December 4, 1985. On February 26, 1985, the Minister of Finance tabled the Motions which contain proposals to amend the Tax Act (Canada). This summary takes into account the proposed amendments set forth in the Motions, however, there is no assurance that these amendments will be enacted as proposed or at all. Income tax consequences for shareholders who do not hold their shares of NCO or Merland as capital property are not considered. Those persons should consult their own tax advisers with respect to the tax consequences to them of the Amalgamation. Non-residents should also see "Income Tax Considerations for United States NCO and Merland Shareholders".

Assuming that:

(a) the fair market value, immediately before the Amalgamation, of the shares in the capital of NCO or Merland held by the particular holder thereof (the "Former Shares"), and converted by virtue of the Amalgamation for shares of Amalgamated NCO is equal to the fair market value, immediately after the Amalgamation, of such Amalgamated NCO shares received by such holder; and

(b) no consideration, other than the shares of Amalgamated NCO, is received by the particular holder in consideration for the Former Shares,

then such holder will be deemed to have disposed of the Former Shares for proceeds of disposition equal to the adjusted cost base of such Former Shares to the holder immediately before the Amalgamation and to have acquired shares of Amalgamated NCO for which such Former Shares were converted at a cost to him equal to the adjusted cost base of the Former Shares so converted.

Having regard to the assumption in (b) above, Revenue Canada has advised that it will not deny the rollover treatment under the Tax Act (Canada) and referred to above to a shareholder in respect of shares of an amalgamated corporation received by him merely because the shareholder is required to receive cash or other consideration in lieu of a fraction of a share of the amalgamated corporation. In such circumstances, provided that the total cash consideration does not exceed $200.00, the shareholder may either:

(a) calculate the taxable capital gain or allowable capital loss, if any, arising upon the disposition of the fractional share and include such amount in computing his taxable income for the taxation year in which the disposition occurs; or

(b) ignore the taxable capital gain or allowable capital loss, if any, arising upon the disposition of the fractional share and reduce the adjusted cost base of the shares of the amalgamated corporation received on the amalgamation by the total amount of cash consideration received in lieu of a fraction of a share.

Where the Former Shares are taxable Canadian property to the holder thereof, the Amalgamated NCO shares received by such holder will be deemed to be taxable Canadian property of the holder.

Income Tax Considerations for United States NCO and Merland Shareholders

It is impractical to comment on all aspects of United States federal, state and local tax law which may affect the tax consequences to United States shareholders of NCO and Merland. The income tax consequences may vary according to the circumstances of each shareholder and the jurisdiction in which he resides. The provisions of state and local income tax legislation vary from jurisdiction to jurisdiction and, in some cases, differ from federal income tax legislation.

Each United States shareholder is urged to consult a tax adviser knowledgeable in these areas with reference to his own particular circumstances and the federal and state income tax consequences to him as a result of the Amalgamation. For purposes of the discussion which follows, a United States shareholder includes a United States citizen or resident, a United States corporation and other persons who would be subject to United States federal income tax on the sale or exchange of their Former Shares.

Because of a number of differences between Canadian and United States corporate law, there are no controlling precedents for applying the complex provisions of the United States Internal Revenue Code (the "Code") to the Amalgamation which is being effected under the CBCA. Accordingly, the United States federal income tax consequences of the Amalgamation are not entirely clear. No ruling has been or will be sought from the Internal Revenue Service with respect to the Amalgamation.

In the opinion of Jacobs Persinger & Parker, United States tax counsel, (A) with respect to United States shareholders of NCO, it would appear that the Amalgamation should be treated as a tax free reorganization within the meaning of Section 368(a) of the Code, although the Internal Revenue Service might maintain that it is a taxable exchange of NCO shares for Amalgamated NCO shares, and (B) with respect to United States shareholders of Merland, it would appear that the exchange of their Merland shares for Amalgamated NCO shares in the Amalgamation would be treated as a taxable exchange. The federal income tax consequences of such treatments to United States shareholders of NCO and Merland are as follows.

If the Amalgamation were treated as a reorganization with respect to NCO, and subject to the discussions below with respect to the "Section 367(b) Notice" and dissenters' rights, (i) a United States shareholder of NCO would recognize no gain or loss upon the exchange of NCO shares for Amalgamated NCO shares, except to the extent that gain or loss is recognized in respect of any cash received in lieu of fractional shares; (ii) the aggregate basis of Amalgamated NCO shares received by such shareholder (including any basis allocated to a fractional share interest) will equal the aggregate basis of the NCO shares exchanged therefor; (iii) the holding period of the Amalgamated NCO shares (including any fractional share interest) received by such shareholder will include the holding period of the NCO shares exchanged therefor if such shares were capital assets in the hands of such shareholder; and (iv) cash received in lieu of a fractional share will be treated as received in payment therefor, with the result that such shareholder will recognize gain or loss equal to the difference between the cash received and such shareholder's basis in the fractional share, and such gain or loss will be capital gain or loss if the exchanged share was a capital asset in the hands of such shareholder.

In the case of treatment of the Amalgamation as a reorganization, under Temporary Treasury Regulation Section 7.367(b)-1(c) each United States shareholder of NCO who is required to file a United States federal income tax return for the taxable year in which the Amalgamation occurs and who realizes any gain on the exchange of NCO shares for Amalgamated NCO shares would be required to file a notice (the "Section 367(b) Notice"), even though no gain is recognized on such exchange. The Section 367(b) Notice must be filed on or before the last date (including extensions) for filing the federal income tax return for the shareholder's taxable year in which the Amalgamation occurs, with the district director with whom the person would be required to file a federal income tax return for such year. If a shareholder required to file the Section 367(b) Notice does not properly file such notice, the Internal Revenue Service may seek to treat the exchange of NCO shares for Amalgamated NCO shares as a taxable transaction with respect to such shareholder. A form of Section 367(b) Notice will be provided to each NCO shareholder of record with a United States address who receives Amalgamated NCO shares in the Amalgamation.

With respect to a United States shareholder of Merland, and also with respect to a United States shareholder of NCO in the event the Amalgamation were not treated as a reorganization with respect to NCO, it

would appear that the exchange of Former Shares for shares of Amalgamated NCO would be treated as a taxable exchange. As a result, such a United States shareholder will recognize gain or loss equal to the difference between (i) the aggregate of the fair market value of the Amalgamated NCO shares received by such shareholder and any cash received in lieu of fractional shares and (ii) such shareholder's basis in the Former Shares exchanged therefor. The gain or loss will be capital gain or loss if the exchanged shares were a capital asset in the hands of the shareholder and will be a long term or short term capital gain or loss depending on the shareholder's holding period. The fair market value of the Amalgamated NCO shares is to be determined as of the Effective Date of the Amalgamation and the United States shareholder's basis in the shares received by such shareholder will be equal to such fair market value. United States shareholders of Bankeno will not realize any gain or loss upon the conversion of the Merland shares distributed to them into shares of Amalgamated NCO.

The conclusion of Jacobs Persinger & Parker with respect to the possible treatment of the Amalgamation as a reorganization with respect to NCO is based upon certain representations by NCO with respect to the business, assets and shareholders of NCO and certain assumptions, including that no United States shareholder of NCO owns, or during the five year period ending on the Effective Date of the Amalgamation has owned, directly or indirectly, actually or constructively, 10 percent or more of the outstanding common shares of NCO; that shareholders of NCO have no plan to sell or otherwise dispose of the Amalgamated NCO shares to be received by them in the Amalgamation so as to affect actual or constructive control of Amalgamated NCO; and that the amounts paid in respect of the exercise of dissenters' rights by NCO shareholders and NCO's costs and expenses in connection with the Amalgamation will be less than 10 percent of the net assets of NCO and less than 30 percent of its gross assets, both determined on a fair market value basis.

In the opinion of MacKimmie Matthews, Canadian counsel, dividends paid or credited by Amalgamated NCO to United States resident shareholders shall be subject to tax in Canada, which tax shall be collected by means of withholding therefrom by Amalgamated NCO. Subject to the provisions of the Canada-U.S. Income Tax Convention (1980) and the Tax Act (Canada), in some circumstances any gain derived by a United States resident shareholder of Amalgamated NCO from the alienation of Amalgamated NCO shares may be subject to taxation in Canada.

Rights of Dissenting Shareholders

The CBCA provides that shareholders of corporations which are governed by it have a right to dissent in the event of an amalgamation. Both NCO and Merland are corporations governed by the CBCA. No such right of dissent arises upon a reduction of stated capital. Therefore, the dissent rights discussed below apply only to shareholders of NCO and Merland, and not to shareholders of Bankeno.

Section 184(1) of the CBCA provides that any holder of shares of any class of either of NCO or Merland may, dissent if NCO or Merland, respectively, resolves to amalgamate with the other. Such a shareholder (a "dissenting shareholder") may send to the company of which he owns shares ("His Company") a written objection (a "notice of dissent") to the special resolution approving the Amalgamation Agreement. In addition to any other right such a shareholder may have, such a shareholder who complies with the dissent procedure of section 184 is entitled to be paid by His Company the fair value of the shares held by him determined as at the close of business on the day before the special resolution was passed.

A dissenting shareholder may claim under Section 184 only with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in his name. A shareholder who wishes to invoke the provisions of Section 184 must send written notice of his dissent to His Company at or before the Special Meeting. The filing of a notice of dissent does not deprive a shareholder of his right to vote on the special resolution and a vote against the special resolution does not constitute notice of dissent. A shareholder's failure to vote against the special resolution will not constitute a waiver of his right to dissent.

Within ten days after the passing of the special resolution, His Company is required to notify in writing each dissenting shareholder who has not voted for the special resolution or withdrawn his objection that the special resolution has been adopted. A dissenting shareholder shall within 20 days after he receives notice of adoption of the special resolution send to His Company a written notice (the "demand for payment") containing his name and address, the number of shares in respect of which he dissents and a demand for payment of the fair value of the shares of His Company held by him. Within 30 days of the sending of his demand for payment, the dissenting

shareholder shall send the certificates representing the shares in respect of which he dissents to His Company or its transfer agent. His Company or its transfer agent shall endorse thereon notice that the shareholder thereof is a dissenting shareholder and forthwith return the share certificates to the dissenting shareholder.

After sending a demand for payment a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shares of His Company held by him, unless the dissenting shareholder withdraws his demand for payment before His Company makes an offer to pay (the "offer to pay"), or His Company fails to make an offer to pay and the dissenting shareholder withdraws his notice, or the directors of His Company terminate the Amalgamation Agreement (in accordance with its terms) before the issue of a certificate of amalgamation, in which case his rights as a shareholder are reinstated as of the date he sent the demand for payment.

Not later than seven days after the later of the Effective Date or the day His Company receives his demand for payment, His Company shall send to the dissenting shareholder who has sent a demand for payment an offer to pay for the shares of the dissenting shareholder in an amount considered by the directors of His Company to be the fair value thereof accompanied by a statement showing how the fair value was determined. Every offer made by His Company to pay for shares held by dissenting shareholders shall be on the same terms. Any offer to pay accepted by a dissenting shareholder of the same class or series shall be paid by His Company within ten days of the acceptance but an offer to pay lapses if His Company has not received an acceptance thereof within 30 days of the making of the offer to pay.

If His Company fails to make an offer to pay, or if any dissenting shareholder fails to accept an offer to pay, His Company may within 50 days after the Effective Date of the Amalgamation, or within such further period as the Court may allow, apply to a Court to fix a fair value for the shares of any dissenting shareholder. If His Company fails to apply to a Court under the foregoing provision, a dissenting shareholder may apply to a Court for the same purpose, within a further period of 20 days or within such further period as the Court may allow. Any such application shall be made to the Court having jurisdiction in the place where the registered office of His Company is located or in the province where the dissenting shareholder making the application resides if His Company carries on business in that province.

A dissenting shareholder is not required to give security for costs in any such application to a Court, and each dissenting shareholder whose shares have not been purchased by His Company shall be joined as a party and bound by the decision of the Court. Each affected dissenting shareholder shall be notified by His Company of the date, place and consequences of an application and of the rights of a dissenting shareholder to appear and be heard in person or by counsel.

The Court shall fix a fair value for the shares of all dissenting shareholders and may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the Effective Date of the Amalgamation to the date of payment of the amount ordered by the Court.

The awarding of costs of any application to a Court by a dissenting shareholder or His Company will be in the discretion of the Court.

Notwithstanding the above, neither NCO nor Merland can make a payment to any dissenting shareholder under Section 184 if there are reasonable grounds for believing that:

(a) the company is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities.

The above is only a summary of the provisions of Section 184 of the CBCA which are technical and complex. Section 184 is set out in Appendix III hereto. It is recommended that any shareholder of NCO or Merland wishing to avail himself of his right of dissent seek his own legal advice as failure to comply strictly with the provisions of the statute may prejudice his right of dissent.

Canadian Income Tax Considerations For Dissenting Shareholders

It is impractical to comment on all aspects of Canadian federal and provincial income tax law which may affect the tax consequences to a shareholder of NCO or Merland resident in Canada as the result of the payment

to such shareholder by His Company of the fair value of the shares held by him in consequence of his complying with the dissent procedure under the CBCA. The income tax consequences may vary according to the circumstances of each shareholder and the province in which he resides. The provisions of provincial income tax legislation vary from province to province and, in some cases, differ from federal income tax legislation.

Each Canadian shareholder who proposes to dissent in accordance with the CBCA is urged to consult a tax adviser knowledgeable in this area with reference to his own particular circumstances and the federal and provincial income tax consequences to him as the result of the receipt of a payment from His Company pursuant to his dissent.

In the opinion of MacKimmie Matthews, Canadian counsel, the following is a fair and adequate summary of certain of the federal income tax consequences to a shareholder of NCO or Merland who is paid by His Company the fair value of the shares held by him as the result of complying with the dissent procedure under the CBCA. This summary is based upon the provisions of the Tax Act (Canada), the Canadian Regulations, counsel's understanding of the current administrative practices of Revenue Canada and the provisions of the CBCA. Except where otherwise indicated, this summary does not take into account provincial income tax considerations, nor does it take into account or anticipate changes in the law (including the Tax Act (Canada) and the Canadian Regulations) whether by judicial or legislative action. In particular, it should be noted that this summary does not take into account any of the consequences under the Tax Act (Canada) as the result of the proposed Alternative Minimum Tax set forth in the Department of Finance Release dated December 4, 1985. On February 26, 1985, the Minister of Finance tabled the Motions which contain proposals to amend the Tax Act (Canada). This summary takes into account the proposed amendments set forth in the Motions, however, there is no assurance that these amendments will be enacted as proposed or at at all. Income tax consequences for a shareholder who is not resident in Canada for purposes of the Tax Act (Canada) or to whom his shares in the capital of NCO or Merland are not capital property are not considered. Any such person should consult his own tax adviser with respect to the tax consequences to him of the payment to him by His Company of the fair value of the shares held by him in consequence of his complying with the dissent procedure under the CBCA. Non-residents should also see "Income Tax Considerations for United States NCO and Merland Shareholders", where applicable.

A dissenting shareholder who is paid by His Company the fair value of the shares held by him as the result of complying with the dissent procedure under the CBCA will be considered to have disposed of his shares to His Company for purposes of the Tax Act (Canada). The amount received by a dissenting shareholder for those shares formerly held by him (exclusive of interest, if any, thereon) less the amount of the paid up capital of such shares, will be deemed to have been received by him as a taxable dividend. Any such dividend deemed to have been received by a dissenting shareholder will be subject to similar treatment under the Tax Act (Canada) to that described above for dividends in "Income Tax Considerations to Bankeno Shareholders".

The dissenting shareholder may also realize a taxable capital gain or an allowable capital loss on the disposition of his former shares, which amount must be included in computing his income under the Tax Act (Canada). The amount of such taxable capital gain or allowable capital loss will be equal to one-half of the amount by which the amount paid to him by His Company (less interest, if any thereon and the amount of the deemed dividend described above) exceeds or is less than, respectively, the aggregate of the adjusted cost base of such shares and the reasonable expenses incurred by him for the purpose of making the disposition. A dissenting shareholder who is an individual and resident in Canada throughout the taxation year may be entitled to deduct an amount in computing his taxable income for a taxation year in respect of his cumulative lifetime taxable capital gains exemption. This exemption is phased in for taxation years between 1986 and 1990, subject to other limitations set forth more particularly in the Tax Act (Canada), as follows:

1986	— up to $25,000.00 of taxable capital gains;
1987	— up to $50,000.00 of taxable capital gains;
1988	— up to $100,000.00 of taxable capital gains;
1989	— up to $150,000.00 of taxable capital gains;
1990 and thereafter	— up to $250,000.00 of taxable capital gains.

Allowable capital losses must be deducted from the amount of any taxable capital gains of a taxpayer for the year of disposition. Any allowable capital loss realized by a corporate shareholder may, in certain circumstances, be required to be reduced by the amount of dividends which have been received on the former shares. Any

remaining undeducted allowable capital losses may be carried back three years or carried forward indefinitely to future taxation years, to be applied against taxable capital gains realized in those taxation years.

United States Income Tax Consequences to Dissenting Shareholders

It is impractical to comment on all aspects of United States federal, state and local tax law which may affect the tax consequences to a United States shareholder of NCO or Merland as a result of the payment to such shareholder by his Company of the fair value of the shares held by him in consequence of his complying with the dissent procedure under the CBCA. The income tax consequences may vary according to the circumstances of each shareholder and the jurisdiction in which he resides. The provisions of state and local income tax legislation vary from jurisdiction to jurisdiction and, in some cases, differ from federal income tax legislation.

Each United States shareholder who proposes to dissent in accordance with the CBCA is urged to consult a tax adviser knowledgeable in this area with reference to his own particular circumstances and the federal and state income tax consequences to him as a result of the receipt of a payment from His Company pursuant to his dissent. For purposes of the discussion which follows, a United States shareholder includes a United States citizen or resident, a United States corporation and other persons who would be subject to United States federal income tax on the sale or exchange of their former shares.

United States dissenting shareholders will be treated as having sold their NCO or Merland shares for the amount payable to them in respect of such shares. Such shareholders will recognize gain or loss equal to the difference between the amount received by them for their shares and their basis in such shares. The gain or loss will be capital gain or loss if such shares were a capital asset in the hands of such shareholders and will be long term or short term capital gain or loss depending on the shareholders' holding period.

Accounting Procedures

Amalgamated NCO will account for the transaction as a business combination using the "purchase" method of consolidation under generally accepted accounting principles. The historical consolidated financial statement of NCO on the Effective Date of Amalgamation will be adjusted to reflect the purchase by NCO of the 46% minority interest in Merland held by other shareholders.

AMALGAMATED NCO

Name and Business

Amalgamated NCO will carry on business under the name "North Canadian Oils Limited", and will continue to own and operate the former businesses of NCO and Merland. Thus it will be principally engaged, directly and through subsidiaries, in the business of oil and natural gas exploration, development and production, and in natural gas transmission. Initially Amalgamated NCO will continue the business principally in Canada, with minimal involvement in the United States through North Canadian Resources, Inc. Ultimately it is intended to dispose of the United States business when the opportunity becomes available. Through its substantial ownership of Bankeno, which owns a 25% royalty interest in the Polaris Mine, Amalgamated NCO will also be involved in lead-zinc mining. The principal office of Amalgamated NCO will be located at 700, 112 - 4th Avenue S.W., Calgary, Alberta.

Pro Forma Financial Information and Per Share Data of Amalgamated NCO

The accompanying, unaudited pro forma consolidated balance sheet as at March 31, 1986 and for the unaudited pro forma consolidated statements of income for the three months ended March 31, 1986 and for the year ended December 31, 1985 illustrate on a pro forma basis the effect of the Amalgamation of NCO and Merland on a "purchase" accounting basis under which NCO will acquire the remaining 46% minority interest in the shares of Merland not owned at March 31, 1986. These statements have been prepared by NCO and Merland and, Touche Ross & Co., auditors of NCO and Merland, have prepared a compilation report thereon.

AMALGAMATED
NORTH CANADIAN OILS LIMITED

PRO FORMA CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1986

(thousands of Canadian dollars)
(Unaudited)

	NCO	Adjustments (Notes 1 to 4) add (deduct)			Pro forma Amalgamated NCO
ASSETS					
Current					
Investments	$240,232 (2c)	5,069			$245,301
Accounts receivable	36,443				36,443
Prepaid expenses	683				683
	277,358				282,427
Note Receivable	65,000				65,000
Oil, gas and mining properties and equipment	450,588 (2b)	3,111 (2b)		(5,571)	448,128
Other assets	4,151				4,151
	$797,097				$799,706
LIABILITIES					
Current					
Accounts payable	$ 49,682				$ 49,682
Current portion of deferred revenue	3,097				3,097
Current portion of long-term debt	7,321				7,321
	60,100				60,100
Deferred revenue	21,939				21,939
Long-term debt	302,770 (2c)	(11,500)			291,270
Deferred income taxes	46,727 (2b)	(5,571)			41,156
Minority interest	70,053 (2d)	(60,104)	(2b)	(20,417)	6,101
			(2c)	16,569	
SHAREHOLDERS' EQUITY					
Share capital					
Preferred shares	155,533 (2d)	60,104			215,637
Common shares	44,895 (2b)	23,528			68,423
Contributed surplus	142 (4)	(142)			—
Retained earnings	94,938		(4)	142	95,080
	295,508				379,140
	$797,097				$799,706

AMALGAMATED
NORTH CANADIAN OILS LIMITED

PRO FORMA CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 1986
(thousands of Canadian dollars)
(Unaudited)

	NCO	Adjustments (Notes 1 to 4) add (deduct)		Pro forma Amalgamated NCO
Revenue				
Oil and gas, net	$30,440			$30,440
Pipeline operations	3,184			3,184
Investment and other	6,605	(3)	82	6,687
	40,229			40,311
Expenses				
Operating	4,740			4,740
Gas purchased for resale	2,324			2,324
General and administrative	2,233			2,233
Interest on long-term debt	9,300	(3)	(316)	8,984
Depreciation and depletion	9,165			9,165
	27,762			27,446
Income before taxes and undernoted items	12,467			12,865
Income and resource taxes	4,387	(3)	114	4,501
Income before undernoted	8,080			8,364
Minority interest	1,702	(3)	(704)	998
Net income	$ 6,378			$ 7,366
Net income per common share				
— Basic	$.42			$.34
— Fully diluted	$.33			$.29
Book value per common share	$12.83			$12.71
Number of common shares	10,906,239			12,866,872

AMALGAMATED
NORTH CANADIAN OILS LIMITED

PRO FORMA CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1985

(thousands of Canadian dollars)
(Unaudited)

	NCO	Adjustments (Notes 1 to 4) add (deduct)		Pro forma Amalgamated NCO
Revenue				
Oil and gas, net	$113,980			$113,980
Pipeline operations	9,757			9,757
Investment and other	25,820	(3)	259	26,079
	149,557			149,816
Expenses				
Operating	22,514			22,514
Gas purchased for resale	5,809			5,809
General and administrative	8,664			8,664
Interest on long-term debt	32,708	(3)	(813)	31,895
Depreciation and depletion	34,037			34,037
	103,732			102,919
Income before taxes and undernoted items	45,825			46,897
Income and resource taxes	18,617	(3)	293	18,910
Income before undernoted items	27,208			27,987
Minority interest	4,242	2(c)	(4,264)	(22)
Net income	$ 22,966			$ 28,009
Net income per common share				
— Basic	$1.21			$1.11
— Fully diluted	$1.10			$1.04
Book value per common share	$12.51			$12.29
Number of common shares	10,821,739			12,782,372

AMALGAMATED
NORTH CANADIAN OILS LIMITED

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The accompanying unaudited pro forma consolidated financial statements were prepared from:

   (a) The unaudited consolidated balance sheet as at March 31, 1986, the unaudited consolidated statement of income for the three months ended March 31, 1986 and the consolidated statement of income for the year ended December 31, 1985 of NCO, which includes NCO's 86.6% interest in Bankeno and Bankeno's 53.0% interest in Merland.

   (b) The unaudited consolidated balance sheet as at March 31, 1986, the unaudited consolidated statement of earnings for the three months ended March 31, 1986 and the consolidated statement of earnings for the year ended December 31, 1985 of Merland.

2. The unaudited pro forma consolidated balance sheet at March 31, 1986 gives effect to the following transactions for the assumed elimination of the 45.9% minority interest in Merland by the Amalgamation of NCO and Merland as if it had occurred March 31, 1986:

   (a) The issue of Amalgamated NCO shares for all NCO common shares outstanding at date of Amalgamation.

   (b) The issue of 1,960,633 Amalgamated NCO common shares in exchange for the remaining 11,273,647 Merland common shares not owned by NCO prior to Amalgamation and the adjustment to oil, gas and mining properties and minority interest as a result of the share exchange. Oil, gas and mining properties and equipment are increased by $9,091,000 representing the excess of the attributed value of the Amalgamated NCO common shares issued ($23,528,000) over the net book value of Merland assets acquired ($14,437,000) at March 31, 1986 and reduced by $5,571,000 representing the adjustment to deferred income taxes of Merland as a result of the share exchange. In addition, oil, gas and mining properties and equipment are reduced by $5,980,000 to reflect the allocation to minority interest of its proportionate share of the capital distribution of Merland shares by Bankeno.

   (c) The purchase in May 1986 of 506,910 common shares (representing 30% voting interest) of 142433 Canada Ltd. for $5,069,000 and the sale of Bankeno's investment in the preferred shares, series A and B, of Merland to this company for cash in the amount of $16,569,000, representing Bankeno's book value. Long term debt of Bankeno is reduced by $11,500,000, being the net amount of the cash received.

   (d) The issue of 1,303,788 Amalgamated NCO Class B Preferred Shares, Series 6 and 1,100,355 Class B Preferred Shares, Series 7 for the outstanding Preferred Series A and B of Merland in the total amount of $60,104,000.

   (e) The accounting policies of Amalgamated NCO will continue to be those set out in Note 1 to the historical consolidated financial statements of NCO at December 31, 1985.

3. The unaudited pro forma consolidated statements of income for the three months ended March 31, 1986 and for the year ended December 31, 1985 give effect to the transactions and assumptions stated in Note 2 as if they had occurred at the beginning of the respective reporting periods, except for the transactions in note 2(c) which were effected May 1, 1985, being the date Bankeno acquired the Merland preferred shares.

4. The transfer of the contributed surplus of $142,000 to retained earnings on amalgamation.

COMPILATION REPORT

The Directors
North Canadian Oils Limited

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of North Canadian Oils Limited as at March 31, 1986 and the unaudited pro forma consolidated statements of income for the three months ended March 31, 1986 and for the year ended December 31, 1985. In our opinion, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of income have been properly compiled to give effect to the transactions and the assumptions described in the accompanying notes thereto.

Calgary, Alberta
May 9, 1986

Touche Ross & Co.
Chartered Accountants

Pro Forma Capitalization of Amalgamated NCO

	Shares		Pro Forma as at March 31, 1986 Upon Amalgamation	Pro Forma as at April 30, 1986 Upon Amalgamation
	Authorized	Outstanding	Amount ($,000's)	Amount ($,000's)
Long Term Debt (1)(2)				
Bank loans			38,756	58,017
Loans from affiliates			115,900	98,600
11¼% sinking fund debentures			2,938	2,938
8% convertible debentures			50,000	50,000
10% debentures			70,143	70,143
Income debentures			16,380	16,290
Mining loan			4,474	4,474
			298,591	300,462
Deferred revenue			25,036	25,036 (6)
Deferred income and resource taxes			41,156	41,156 (6)
Minority interest			6,101	6,101 (6)
Share capital				
5½% preferred shares	20,149	15,546	777	777 (6)
Class A preferred shares	unlimited			
Series 1	10,000,000	2,000,000	50,000	50,000
Class B preferred	unlimited			
Series 1	1,000,000	1,000,000	20,000	20,000
Series 2	800,000	800,000	20,000	20,000
Series 3	2,300,000	2,158,545	64,756	64,756
Series 4 (3)	2,857,145			
Series 5 (4)	2,857,145			
Series 6	1,303,788	1,303,788	32,595	32,595
Series 7	1,100,355	1,100,355	27,509	27,509
Special non-voting shares	unlimited			
Common shares (5)	unlimited	12,866,872	68,423	68,423
Retained earnings			95,080	95,080 (6)
Shareholders' equity			379,140	379,140
Total capitalization			750,024	751,895

(1) Includes the long term debt of NCO, Merland and Bankeno.

(2) Long term debt of NCO and Merland will become long term debt of Amalgamated NCO. See "Consolidated Capitalization of NCO", and "Pro Forma Financial Information and Per Share Data of Amalgamated NCO" for certain details of this indebtedness.

(3) Issuable upon the conversion, at the option of the holder at any time until maturity, of 8% convertible debentures.

(4) Issuable upon the conversion, at the option of Amalgamated NCO at any time until December 31, 1986, of 8% convertible debentures.

(5) Does not include common shares issuable in the aggregate, upon the conversion of the Amalgamated NCO Class B Series 1, 2, 3, 6 and 7 Shares and 8% convertible debentures.

(6) Amounts are as at March 31, 1986.

Description of Share Capital of Amalgamated NCO

The following is a summary of the rights, preferences, privileges, conditions and limitations attaching to the share capital of Amalgamated NCO. A copy of the exact text of the provisions of the Amalgamated NCO share capital will be mailed to anyone submitting prior to June 25, 1986 a written request therefor addressed to the Secretary of NCO or Merland at 700, 112 - 4th Avenue S.W., Calgary, Alberta T2P 2B2.

Attributes of All Classes of Shares

The rights of holders of all classes of shares of Amalgamated NCO can be modified with the approval of the shareholders of that class given by the affirmative vote of at least 75% of the votes cast by shareholders of that class at a meeting at which the holders of at least a majority of the outstanding shares of that class are present or represented by proxy.

Attributes of All Series of Shares

The rights of holders of all series of Amalgamated NCO Class A Preferred Shares and Amalgamated NCO Class B Preferred Shares can be modified with the approval of the shareholders of that series given by the affirmative vote of at least 66⅔% of the votes cast by shareholders of that series at a meeting at which the holders of at least 25% of the outstanding shares of that series are present or represented by proxy. If a quorum is not present, the meeting may be adjourned by a minimum of two shareholders. The quorum at such adjourned meeting is any two holders of outstanding shares of that series present or represented by proxy.

Amalgamated NCO 5½% Preferred Shares

There will be 20,149 Amalgamated NCO 5½% Preferred Shares authorized, each with a par value of $50, of which approximately 15,546 will be issued and outstanding upon Amalgamation. The Amalgamated NCO 5½% Preferred Shares will earn cumulative dividends at an annual rate of 5½%, payable semi-annually. The holders of Amalgamated NCO 5½% Preferred Shares will have the right to vote at an annual or extraordinary meeting of Amalgamated NCO if four consecutive semi-annual dividends are not paid. Amalgamated NCO may redeem all or part of the Amalgamated NCO 5½% Preferred Shares at any time. Amalgamated NCO is obligated to set aside, as a sinking fund, $100,000 per year and use such funds to purchase or redeem Amalgamated NCO 5½% Preferred Shares for the purpose of cancellation or retirement. The Amalgamated NCO 5½% Preferred Shares have a priority over other classes in the declaration of dividends and distribution of assets (to the extent of the par value of each share).

Amalgamated NCO Class A Preferred Shares

The Amalgamated NCO Class A Preferred Shares rank junior to the Amalgamated NCO 5½% Preferred Shares with respect to all rights, privileges, restrictions and other conditions. There will be an unlimited number of shares of this class authorized, and they will be issuable in series, of which one series, the Amalgamated NCO Class A Series 1 Shares, will be designated upon Amalgamation. Each series of Amalgamated NCO Class A Preferred Shares will rank on a parity with every other series with respect to priority in declaration of dividends and distribution of assets. The Amalgamated NCO Class A Shares will have priority in the declaration of dividends and distribution of assets (to the extent of the stated value of each share) over other classes, other than the Amalgamated NCO 5½% Preferred Shares.

(a) *Amalgamated NCO Class A Series 1 Shares*

There will be 10,000,000 authorized Amalgamated NCO Class A Series 1 Shares, each with a stated value of $25.00, 2,000,000 of which will be issued and outstanding upon Amalgamation. Holders of Amalgamated NCO Class A Series 1 Shares will be entitled to cumulative preferential dividends, payable quarterly, at an annual rate of 70% of the average floating prime rate of certain Canadian chartered banks. The effective annual dividend rate as at March 31, 1986 would have been approximately 8.4% or $2.10 per share. These shares will be redeemable by Amalgamated NCO after June 30, 1989, at specified prices that depend on the time of redemption. Holders of Amalgamated NCO Class A Series 1 Shares will have the right to vote at meetings of shareholders if, at any time, eight quarterly dividends are not paid in the aggregate. Amalgamated NCO shall not, without the approval of the holders of the Amalgamated NCO Class A Series 1

Shares, redeem or purchase any junior shares, or, less than all of the Amalgamated NCO Class A Series 1 Shares, or, except for any obligatory redemption or purchase, any shares ranking on a parity with the Amalgamated NCO Class A Series 1 Shares, unless all dividends payable on the Amalgamated NCO Class A Series 1 Shares, and all other shares ranking on a parity therewith, have been paid.

Amalgamated NCO Class B Preferred Shares

The Amalgamated NCO Class B Preferred Shares rank junior to the Amalgamated NCO 5½% Preferred Shares and the Amalgamated NCO Class A Preferred Shares with respect to all rights, privileges, restrictions and other conditions. There will be an unlimited number of Amalgamated NCO Class B Preferred Shares authorized and they are issuable in series, of which seven series will be designated upon Amalgamation. Each series of Amalgamated NCO Class B Preferred Shares ranks on a parity with every other series with respect to priority in declaration of dividends and in distribution of assets. The Amalgamated NCO Class B Preferred Shares will have priority in the declaration of dividends and distributions of assets (to the extent of the stated value of each share) over other classes other than the Amalgamated NCO 5½% Preferred Shares and Amalgamated NCO Class A Preferred Shares. Amalgamated NCO shall not, without the approval of the holders of each series of the Amalgamated NCO Class B Preferred Shares, redeem or purchase any junior shares, or, less than all of the shares of any series of the Amalgamated NCO Class B Preferred Shares, or, except for any obligatory redemption or purchase, any shares ranking on a parity with the shares of any series of the Amalgamated NCO Class B Preferred Shares, unless all dividends payable on that specific series, and, with respect to Series 1, 2 and 3 of the Amalgamated NCO Class B Preferred Shares only, all dividends then payable on all other shares ranking on a parity therewith, have been paid.

(a) *Amalgamated NCO Class B Series 1 Shares*

There will be 1,000,000 authorized Amalgamated NCO Class B Series 1 Shares, each with a stated value of $20.00, all of which will be issued and outstanding upon Amalgamation. Holders of Amalgamated NCO Class B Series 1 Shares will be entitled to cumulative preferential dividends, payable semi-annually, at an annual rate of one-half of the floating prime rate of a Canadian chartered bank, plus 1%. The effective annual dividend rate as at March 31, 1986 would have been approximately 7% or $1.40 per share. Amalgamated NCO may redeem any of these shares at any time, although redemption prior to April 30, 1993, requires that the common shares of Amalgamated NCO be trading at not less than 140% of the conversion price. Holders of Amalgamated NCO Class B Series 1 Shares will have the right to vote at meetings of shareholders of Amalgamated NCO if, at any time, four semi-annual dividends are not paid in the aggregate. The Amalgamated NCO Class B Series 1 Shares will be convertible into common shares of Amalgamated NCO at any time prior to April 30, 1993 at the rate of one and one-half common shares of Amalgamated NCO for each Amalgamated NCO Class B Series 1 Share, subject to adjustment in the event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

(b) *Amalgamated NCO Class B Series 2 Shares*

There will be 800,000 authorized Amalgamated NCO Class B Series 2 Shares, each with a stated value of $25.00, all of which will be issued and outstanding upon Amalgamation. Holders of the Amalgamated NCO Class B Series 2 Shares are entitled to cumulative preferential dividends, payable semi-annually, at an annual rate of one-half of the floating prime rate of a Canadian chartered bank, plus 1%. The effective annual dividend rate as at March 31, 1986 would have been approximately 7% or $1.40 per share. Amalgamated NCO may redeem any of these shares at any time, although redemption prior to September 2, 1993, requires that the common shares of Amalgamated NCO be trading at not less than 120% of the conversion price. Holders of Amalgamated NCO Class B Series 2 Shares will have the right to vote at meetings of shareholders of Amalgamated NCO if, at any time, four semi-annual dividends are not paid in the aggregate. The Amalgamated NCO Class B Series 2 Shares will be convertible into common shares of Amalgamated NCO prior to September 2, 1993 at the conversion rate of one and one-half common shares of Amalgamated NCO for each Amalgamated NCO Class B Series 2 Share, subject to adjustment in the

event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

(c) *Amalgamated NCO Class B Series 3 Shares*

There will be 2,300,000 authorized Amalgamated NCO Class B Series 3 Shares, each with a stated value of $30.00, of which 2,158,545 will be issued and outstanding upon Amalgamation. Holders of Amalgamated NCO Class B Series 3 Shares will be entitled to cumulative preferential dividends, payable quarterly, at an annual rate of one-half of the floating prime rate of a Canadian chartered bank. The effective annual dividend rate as at March 31, 1986 would have been approximately 6% or $1.80 per share. Amalgamated NCO may redeem any of these shares at any time, although redemption prior to September 28, 1989, requires that the common shares of Amalgamated NCO be trading at not less than 120% of the conversion price. The holders of Amalgamated NCO Class B Series 3 Shares will have the right to vote at meetings of shareholders of Amalgamated NCO if, at any time, eight quarterly dividends are not paid in the aggregate. The Amalgamated NCO Class B Series 3 Shares will be convertible into common shares up to September 28, 1989 at the conversion rate of one and one-half common shares of Amalgamated NCO for each Amalgamated NCO Class B Series 3 Share, subject to adjustment in the event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

(d) *Amalgamated NCO Class B Series 4 Shares and Amalgamated NCO Class B Series 5 Shares*

Both the Amalgamated NCO Class B Series 4 and Amalgamated NCO Class B Series 5 Shares will be created for a limited purpose — for use only in connection with the exercise by the holders of 8% convertible debentures of the right to convert such debentures at any time until maturity into Amalgamated NCO Class B Series 4 Shares or the conversion by Amalgamated NCO at any time until December 31, 1986 into Amalgamated NCO Class B Series 5 Shares. The 8% convertible debentures mature September 30, 1996. There will be 2,857,145 authorized shares of each series and for each share issued of either of these two series, the authorized and unissued number of the other series shall be decreased by one. Holders of each series will be entitled to preferential dividends, which will be non-cumulative prior to October 1, 1993 and cumulative thereafter. Dividends will be payable annually on each series at an annual rate equal to one-half of the floating prime rate of a Canadian chartered bank for the Amalgamated NCO Class B Series 4 Shares and equal to one-half of the prevailing bank prime rate plus 2½% for the Amalgamated NCO Class B Series 5 Shares. Both series of shares will be redeemable by Amalgamated NCO after October 1, 1990 if the common shares of Amalgamated NCO are trading at not less than $21.00. A proportionate number of outstanding Amalgamated NCO Class B Series 4 and Series 5 Shares must be redeemed at the same time. Both series of shares will be convertible at any time up to September 30, 1993 into common shares of Amalgamated NCO at the conversion rate of one common share for each Amalgamated NCO Series 4 or Series 5 Share converted, subject to adjustment in the event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

(e) *Amalgamated NCO Class B Series 6 Shares*

There will be 1,303,788 authorized Amalgamated NCO Class B Series 6 Shares, each with a stated value of $25.00, all of which will be issued and outstanding upon Amalgamation. Holders of Amalgamated NCO Class B Series 6 Shares will be entitled to fixed cumulative preferential dividends, payable quarterly, at an annual rate of $2.00 per share. Amalgamated NCO may redeem any of these shares at any time at varying prices. Amalgamated NCO will be obligated to purchase for cancellation, in the open market, ¾ of 1% of the

shares outstanding on December 31, 1990 in each calendar quarter commencing January 1, 1991, but the obligation may be extinguished or suspended in certain circumstances. The holders of Amalgamated NCO Class B Series 6 Shares will have the right to vote at meetings of shareholders of Amalgamated NCO if, at any time, eight quarterly dividends are not paid in the aggregate. The Amalgamated NCO Class B Series 6 Shares will be convertible into common shares of Amalgamated NCO until December 31, 1990 at a conversion rate of .34 of a common share for each Amalgamated NCO Class B Series 6 Share converted, subject to adjustment in the event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

(f) *Amalgamated NCO Class B Series 7 Shares*

There will be 1,100,355 authorized Amalgamated NCO Class B Series 7 Shares, each with a stated value of $25.00, all of which will be issued and outstanding upon Amalgamation. Holders of Amalgamated NCO Class B Series 7 Shares will be entitled to fixed cumulative preferential dividends, payable quarterly, at an annual rate of $1.875 per share. Amalgamated NCO may redeem any of these shares at any time, although redemption prior to June 30, 1990, requires that the common shares of Amalgamated NCO be trading at not less than 120% of the conversion price. The Amalgamated NCO Class B Series 7 Shares will be convertible into common shares of Amalgamated NCO until June 30, 1990 at a conversion rate of .91 of a common share for each Amalgamated NCO Class B Series 7 Share converted, subject to adjustment in the event of the subdivision, consolidation or reclassification of the Amalgamated NCO common shares, the issue of Amalgamated NCO common shares by way of a stock dividend, the issue of rights to all holders of Amalgamated NCO common shares to require additional common shares at less than 95% of the current market price of the common shares, the distribution of shares or assets to the holders of Amalgamated NCO common shares, the merger of Amalgamated NCO with another corporation, and in similar circumstances.

Amalgamated NCO Special Non Voting Shares

There will be an unlimited number of authorized Amalgamated NCO Special Non-Voting Shares, none of which will be issued and outstanding upon Amalgamation. The Amalgamated NCO Special Non-Voting Shares will rank junior to the Amalgamated NCO 5½% Preferred Shares, the Amalgamated NCO Class A Preferred Shares and the Amalgamated NCO Class B Preferred Shares with respect to all rights, privileges, restrictions and other conditions. Holders of Amalgamated NCO Special Non-Voting Shares will be entitled to non-cumulative dividends of $0.10 semi-annually per share, payable quarterly or half-yearly as determined by the directors. The holders of common shares of Amalgamated NCO will not be entitled to any dividends until the $0.10 semi-annual dividend to the Amalgamated NCO Special Non-Voting Shares for that period has been paid. If such dividend has been paid and the holders of common shares of Amalgamated NCO have received an equal amount of dividends for that period, all further dividends other than dividends on any shares ranking in priority to the Amalgamated NCO Special Non-Voting Shares will be payable in equal amounts per share on all Amalgamated NCO Special Non-Voting Shares and all common shares of Amalgamated NCO at the time outstanding without preference or distinction. Amalgamated NCO Special Non-Voting Shares will have a preference over the common shares of Amalgamated NCO with respect to the distribution of the assets to the extent of all declared and unpaid preferential dividends and then will share equally in the distribution, share for share, with the holders of the common shares of Amalgamated NCO without preference or distinction. Holders of Amalgamated NCO Special Non-Voting Shares will generally not be entitled to vote at meetings of shareholders.

Common Shares

The common shares of Amalgamated NCO will rank junior to the Amalgamated NCO 5½% Preferred Shares, the Amalgamated NCO Class A Preferred Shares, the Amalgamated NCO Class B Preferred Shares and the Amalgamated NCO Special Non-Voting Shares with respect to the prior rights, preferences, priorities, limitations, conditions and restrictions attaching to such shares. Holders of common shares of Amalgamated NCO will be entitled to one vote per share at meetings of shareholders, to receive such dividends as are declared

by Amalgamated NCO and to receive the remaining property and assets of Amalgamated NCO upon its dissolution or winding up, subject to the rights of shares having priority and the rights of the Amalgamated NCO Special Non-Voting Shares to share equally. The holders of common shares of Amalgamated NCO will have no pre-emptive or similar rights to have any common shares of Amalgamated NCO proposed to be issued first offered to them.

Holders of common shares of Amalgamated NCO will have cumulative voting rights in respect of an election of directors. Each holder will have the right to cast a number of votes equal to the number of votes attached to the common shares held by him multiplied by the number of directors to be elected, and may cast all such votes in favour of one candidate or distribute them among the candidates in any manner.

Listing of Amalgamated NCO Shares

The TSE and MSE have each conditionally approved the listing of the Amalgamated NCO common shares, the Amalgamated NCO 5½% Preferred Shares, the Amalgamated NCO Class B Series 3 Shares, the Amalgamated NCO Class B Series 6 Shares and the Amalgamated NCO Class B Series 7 Shares, subject to Amalgamated NCO fulfilling all of the requirements of such exchanges. Application is being made to the AMEX for the listing of the Amalgamated NCO common shares.

Dividend Policy

While the dividend policy of Amalgamated NCO is a matter for determination by its board of directors from time to time, it is anticipated that Amalgamated NCO will pay dividends in a timely manner at the stated rate on its preferred shares, but will otherwise retain its earnings to finance exploration and development and other expansions of its business and not pay dividends on its common shares in the forseeable future.

Principal Holders of Amalgamated NCO Shares

To the knowledge of management of NCO and Merland, the following are the only persons or companies which will own after the Amalgamation, based on their current holdings, beneficially or of record, directly or indirectly, more than 5% of the common shares of Amalgamated NCO within the meaning of Rule 13d-3 under the United States Securities Exchange Act of 1934.

	Number (1)	Percent of Class
Hees International Corporation, Toronto, Ontario	5,506,703 (2)	38%
James F. Kay Toronto, Ontario	2,134,500 (3)	17%
Continental Bank of Canada Toronto, Ontario	1,200,000 (4)	9%
Canadian Imperial Bank of Commerce Toronto, Ontario	3,000,000 (5)	19%

(1) The beneficial owners have sole voting and investment power over the shares owned except as otherwise set forth herein. Beneficial ownership is the direct ownership of common shares of Amalgamated NCO including the right to control the vote or investment or acquire such common shares within the meaning of Rule 13d-3 under the United States Securities Exchange Act of 1934. The shares to be owned by each person and the shares included in the total number of shares to be outstanding have been adjusted in accordance with said Rule 13d-3. Thus the total shares to be outstanding used in calculating the "Percent of Class" column for each holder consists of common shares to be outstanding plus any common shares issuable on conversion of the outstanding Amalgamated NCO Class B Series 1, 2, 3, 6 and 7 Shares beneficially owned by such holder and deemed to be outstanding under Rule 13d-3.

(2) Includes 1,500,000 common shares which will be issuable upon conversion of the 1,000,000 Amalgamated NCO Class B Series 1 Shares to be beneficially owned by Hees.

(3) Such common shares are owned by a corporation wholly-owned by Mr. Kay, the outstanding shares of which are pledged to Hees.

(4) Such common shares will be issuable upon conversion of the 800,000 Amalgamated NCO Class B Series 2 Shares to be beneficially owned by CBOC.

(5) Such common shares will be issuable upon conversion of the 2,000,000 Class B Series 3 Shares to be beneficially owned by CIBC.

Directors of Amalgamated NCO

The Amalgamation Agreement provides that the number of directors of Amalgamated NCO will be nine and that the initial directors of Amalgamated NCO will be as follows:

Name and Residence	Present Principal Occupation and Principal Occupation for the Past Five Years	Amalgamated NCO Shares Owned Upon Amalgamation	Percentage of Class (1)
Walter J. Adams Calgary, Alberta	President, Canadian American Loan & Investment Corporation Limited	153,913 common (2)	—
Norman R. Gish (3) Calgary, Alberta	President and Chief Executive Officer of NCO, Merland and Bankeno since January, 1986; prior thereto President and Chief Executive Officer of Turbo Resources Limited	80,000 common	—
Marshall A. Jacobs New York, New York	Member of the law firm of Jacobs Persinger & Parker	8 common	—
James F. Kay Toronto, Ontario	Chairman of the Board of Dylex Limited (clothing manufacturer and retailer)	2,134,500 common (4)	17
David W. Kerr Toronto, Ontario	Executive Vice President of Brascan Limited since January, 1986 and Executive Vice President and Chief Operating Officer of Hees International Corporation	48,557 common	—
Willard J. L'Heureux, Q.C. Toronto, Ontario	President of Carena Bancorp Inc. (real estate and financial services) since April 1985; and Senior Vice President of Hees International Corporation since September, 1983; prior thereto partner of the law firm of Tory, Tory, DesLauriers & Binnington	32,847 common 300 Class B Series 7	— —
Ross A. MacKimmie, Q.C. Calgary, Alberta	Counsel to the law firm of MacKimmie Matthews	31 common	—
Douglas W. Miller Calgary, Alberta	Executive Vice-President, and President, Petroleum Div. of Westmin Resources Limited; prior thereto, various executive positions with Westmin Resources Limited	Nil	—

Name and Residence	Present Principal Occupation and Principal Occupation for the Past Five Years	Amalgamated NCO Shares Owned Upon Amalgamation	Percentage of Class (1)
E. Donald Patterson Toronto, Ontario	General Manager, Canadian Equity Investments of Ontario Hospital Association (private non-profit non-government association); prior thereto, Director Equity Investments of Ontario Hospital Association	Nil (5)	—

(1) Greater than 1%.

(2) Such shares are owned by Canadian American Loan and Investment Corporation. Mr. Adams is an officer and director of such corporation.

(3) Of the directors, only Mr. Gish will also be an officer and employee of Amalgamated NCO.

(4) Such common shares are owned by a corporation wholly-owned by Mr. Kay, the outstanding shares of which are pledged to Hees.

(5) Mr. Patterson is General Manager, Canadian Equity Investments of Ontario Hospital Association, which manages the assets of the Hospitals of Ontario Pension Plan, which Plan will be the beneficial owner of 121,757 common shares of Amalgamated NCO. Mr. Patterson disclaims beneficial ownership of such shares.

Each director of Amalgamated NCO will remain a director until the first annual meeting of shareholders of Amalgamated NCO or until his successor is elected or appointed. Directors of Amalgamated NCO for ensuing years will be elected pursuant to the cumulative voting provisions of Section 102 of the CBCA. Each shareholder of Amalgamated NCO entitled to vote at an election of directors will have the right to cast a number of votes equal to the number of votes attached to the shares held by him multiplied by the number of directors to be elected, and he may cast all such votes in favour of one candidate or distribute them among the candidates in any manner.

Except as set forth below none of the proposed directors of Amalgamated NCO is a director of any corporation (other than of NCO) which is subject to the reporting requirements of the United States Securities Exchange Act of 1934 or which is a registered investment company under the United States Investment Company Act of 1940:

Name	Director of
Marshall A. Jacobs	Gibraltar Pari-Mutuel, Inc. MATEC Corporation Perini Corporation Perini Investment Properties, Inc.
James F. Kay	Gibraltar Pari-Mutuel, Inc.
David W. Kerr	Gibraltar Pari-Mutuel, Inc. Norcen Energy Resources Limited
Ross A. MacKimmie, Q.C.	Pacific Gas Transmission Company

Executive Officers of Amalgamated NCO

Mr. Grant D. Billing, age 34, will be the Senior Vice-President Finance and Administration and the Corporate Secretary of Amalgamated NCO. Mr. Billing has been Senior Vice President Finance and Administration and Corporate Secretary of NCO and Merland since February, 1986; prior thereto, he was Vice President Finance and Administration of Merland since December, 1983; prior thereto he was Controller of Merland since July, 1983, and prior thereto he was Director Finance and Controller of Fording Coal Limited since prior to 1981.

Mr. Donald F. Christensen, age 57, will be the Senior Vice-President Exploration and Land of Amalgamated NCO. Mr. Christensen has been Senior Vice-President Exploration and Land, of NCO and Merland since February, 1986; prior thereto, he was Senior Vice-President and Chief Operating Officer of NCO since March 1985, and prior thereto he was Senior Vice-President, Operations of NCO since June 1981.

Mr. Norman R. Gish, age 50, will be the President and Chief Executive Officer of Amalgamated NCO. Mr. Gish has been President and Chief Executive Officer of NCO, Merland and Bankeno since January, 1986. Prior thereto, he was President and Chief Executive Officer of Turbo Resources Limited since prior to 1981.

Mr. Charles K. Lough, age 57, will be the Senior Vice-President Corporate Development of Amalgamated NCO. Mr. Lough has been Senior Vice-President, Corporate Development of NCO and Merland since February, 1986; prior thereto, he was Senior Vice-President, Chief Operating Officer and Secretary of NCO since March 1985 and prior thereto, he was Senior Vice-President, Finance and Administration and Secretary of NCO since prior to 1981.

Mr. William A. Trickett, age 38, will be the Senior Vice-President, Operations of Amalgamated NCO. Mr. Trickett has been Senior Vice-President Operations of NCO and Merland since February, 1986; prior thereto he was Vice-President Operations of Merland since December, 1985; prior thereto he was Vice-President Operations of Bumper Development Corporation Ltd. since January, 1982 and prior thereto he was District Manager of Dome Petroleum Limited since prior to 1981.

These individuals will hold office at the pleasure of the board of directors of Amalgamated NCO.

Messrs. N.R. Gish, M.A. Jacobs, J.F. Kay, D.W. Kerr, W.J. L'Heureux, R.A. MacKimmie and D.W. Miller are currently directors of NCO. Messrs. W.J. Adams, N.R. Gish, D.W. Kerr, W.J. L'Heureux, D.W. Miller and E.D. Patterson are currently directors of Merland. Mr. Gish is currently an executive officer of each of NCO and Merland. For details of the remuneration paid to these individuals in their capacities as directors and officers of NCO or Merland, and paid to Messrs. Billing, Christensen, Lough and Trickett in their capacities as directors and officers of NCO and Merland, see "Remuneration of NCO Directors and Officers", "Certain Transactions and Relationships" and "Remuneration of Merland Directors and Officers". For certain information concerning the five year benefit history for executive officers, other officers and employees of Amalgamated NCO see "Benefits During Last Five Years for Officers and Employees of NCO" and "Benefits During Last Five Years for Officers and Employees of Merland".

Amalgamated NCO Share Option Plan

By approving the Amalgamation, the shareholders of NCO and Merland will be considered to have approved the adoption by NCO of the NCO Share Option Plan and the granting of certain options thereunder. See "NCO Share Option Plan".

Amalgamated NCO Management Share Purchase Plan

By approving the Amalgamation, the shareholders of NCO and Merland will be considered to have approved the amendment of the NCO Management Share Purchase Plan to increase the maximum number of shares issuable under the plan from 150,000 to 300,000 and the granting of rights thereunder for in excess of 150,000 common shares. See "NCO Management Share Purchase Plan".

Other Amalgamated NCO Employee Plans and Contracts

The existing NCO Pension Plan, NCO Employee Profit Sharing Plan, NCO Employee Production Incentive Plan and the employment contracts of Messrs. D.F. Christensen and C.K. Lough will be continued as plans and contracts of Amalgamated NCO. See "NCO Pension Plan", "NCO Employee Profit Sharing Plan", "NCO Employee Production Incentive Plan" and "NCO Employee Contracts".

Indebtedness of Executive Officers and Directors

The persons who will be executive officers of Amalgamated NCO are currently or were as at December 31, 1985 indebted to NCO, and after the Amalgamation will continue to be indebted to Amalgamated NCO for like amounts and on like terms. For details of this indebtedness see "Indebtedness of NCO Officers and Directors" and "Indebtedness of Merland Officers and Directors".

Auditors of Amalgamated NCO

The auditors of Amalgamated NCO will be Touche Ross & Co., Chartered Accountants, Calgary, Alberta until the first annual meeting of Amalgamated NCO. A representative of Touche Ross & Co. will attend the Special Meetings and will be provided with an opportunity to make a statement if he desires. Such representative will also be available to respond to appropriate questions from shareholders.

Registrar and Transfer Agent of Amalgamated NCO

The registrar and transfer agent in Canada for the common shares of Amalgamated NCO, the Amalgamated NCO 5½% Preferred Shares, the Amalgamated NCO Class B Series 3 Shares, the Amalgamated NCO Class B Series 6 Shares and the Amalgamated NCO Class B Series 7 Shares will be The Royal Trust Company at its principal offices in the cities of Calgary, Montreal and Toronto. The registrar and transfer agent in the United States for the common shares will be The Bank of Nova Scotia Trust Company of New York at its principal office in New York.

NORTH CANADIAN OILS LIMITED

Corporate Structure

North Canadian Oils Limited was incorporated under the laws of Alberta on July 25, 1947 by certificate of incorporation and continued under the laws of Canada on June 20, 1983. Its principal and head office is located at 700, 112 - 4th Avenue S.W., Calgary, Alberta. NCO has two wholly-owned subsidiaries, North Canadian Resources Inc. (a Delaware corporation) and North Canadian Investments Ltd. (an Ontario corporation).

Business of NCO

This section describes the business of NCO exclusive of the assets and business of Bankeno and Merland unless otherwise indicated. See "Merland Explorations Limited" and "Bankeno Mines Limited" for a description of the assets and business of those companies.

NCO is engaged, principally in western Canada, in the exploration for, and the development and production of, crude oil and natural gas, and in the transportation and marketing of natural gas. NCO currently has limited oil and gas interests in the United States and its intention is to dispose of such interests when the opportunity becomes available and discontinue carrying on business in the United States.

NCO also owns approximately 87% of the outstanding common shares of Bankeno, which in turn owns approximately 53% of the outstanding common shares of Merland.

In addition, NCO owns, through North Canadian Investments Ltd., a portfolio of investments, including marketable preferred and common shares of various Canadian corporations and notes receivable from a Canadian corporation.

Natural Gas

NCO's major natural gas producing properties, which in 1985 accounted for 95% of NCO's gas production, are located in southwestern Saskatchewan and southeastern Alberta. NCO operates all of these properties.

NCO has a 100% working interest in approximately 130,000 acres located in the Horsham Hatton area in southwestern Saskatchewan where there are approximately 503 producing wells tied-in to three compressor plants. Gas production in this area is from the Medicine Hat, Milk River and Second White Specks formations and is sold to Saskatchewan Power Corporation ("SPC") at various prices determined from time to time by the government of Saskatchewan under two contracts which expire in 1988 and 2004. The minimum average deliveries under these contracts are 32 mmcf/d and 3 mmcf/d with peak requirements of 40 mmcf/d and 4.8 mmcf/d respectively. NCO's production from this area was 13.0 bcf during 1985.

In the Hilda Schuler and Atlee Buffalo areas of southeastern Alberta natural gas production, primarily from the Medicine Hat and Milk River formations, is sold to TransCanada under two 365 day per year 100% deliverability contracts. Gas sold under these contracts is priced at the Alberta Border Price less TransCanada Alberta cost of service. NCO has a 100% interest in 37,000 acres in the Hilda Schuler area. The sale contract with TransCanada expires October 31, 1989 and calls for deliveries of 10 mmcf/d. Gas is produced from 245 wells and is processed through three compressor plants. NCO's production from this area was 3.6 bcf during 1985. NCO has a 91% interest in 53,000 gross (48,000 net) acres in the Atlee Buffalo area. The sales contract expires in 1997, and calls for maximum deliveries of 12 mmcf/d. Gas is produced from 326 gross (320 net) wells and is processed through three compressor plants. NCO's production from this area was 2.9 bcf during 1985.

Revenues to NCO in 1985 from natural gas production aggregated $37,481,000 and accounted for approximately 83% of NCO's gas and oil revenue.

The following table shows production amounts (before royalties), revenues to NCO (after royalties) derived from the sale of natural gas, average price (before royalties) received for gas sold, and average lifting costs for the periods indicated.

	Three months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
Production (mmcf)	5,924	20,585	18,580	17,481	17,062	16,814
Revenues ($,000)	10,291	37,481	31,764	28,792 (1)	20,205 (1)	16,192 (1)
Average price ($/mcf)	1.94	2.09	1.99	1.88	1.39	1.20
Average lifting costs ($/mcf)	0.18	0.27	0.26	0.22	0.21	0.14

(1) Includes natural gas liquids.

Crude Oil

In 1985, NCO's production of crude oil and natural gas liquids in Canada totalled 231,000 barrels, an increase of 47% over 1984. The increase is largely attributed to the commencement of production from the Keg River formation in the Rainbow-Zama area of northwest Alberta, where NCO has an average working interest of 38% in 6 wells and from the Manito area of west central Saskatchewan, where NCO has a 100% interest in 12 wells. In the United States, production decreased 21% to 14,000 barrels, produced largely from NCO's interest in the Curtis Creek field in Arkansas.

Revenues to NCO from oil and natural gas liquids aggregated approximately $7,461,000 in 1985 and accounted for approximately 17% of NCO's gas and oil revenue.

The following table shows production amounts (before royalties), revenues to NCO (after royalties) derived from the sale of crude oil and natural gas liquids, average price (before royalties) received for oil sold, and average lifting costs for the periods indicated.

	Three months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
Production (bbls)	89,000	245,000	175,000	134,000	67,000	43,700
Revenues ($,000)	1,794	7,461 (1)	5,437 (1)	3,833	1,633	817
Average price ($/bbls)	25.15	34.72	36.66	32.29	28.58	21.90
Average lifting costs ($/bbl)	4.38	4.65	3.08	2.53	5.71	5.38

(1) Includes natural gas liquids.

Natural Gas Pipelines of NCO

NCO owns and operates a 136 mile, intraprovincial natural gas transmission pipeline and several miles of connecting lateral pipeline in the Wabamun-Hinton area of west central Alberta. The operation of the pipeline system is unrelated to NCO's gas producing operations.

The two principal customers for gas transported through this Wabamun-Hinton pipeline system are Champion Forest Products (Alberta) Ltd. ("Champion") (formerly St. Regis (Alberta) Ltd.) for its pulp mill at Hinton and Northwestern Utilities Limited ("Northwestern") for distribution to its customers. The contract with Champion provides for the transportation of up to 24 mmcf/d and has a term ending April 30, 1997. The contract with Northwestern was made effective February 1, 1976 and may be terminated by either party upon three months prior notice. NCO anticipates that Northwestern will continue to transport its requirements through the Wabamun-Hinton pipeline. NCO also sells gas along this pipeline to other industrial customers and Gas Alberta, a provincial agency responsible for the rural gas distribution systems.

From time to time NCO has entered into several short and intermediate term contracts with a number of producers under which NCO purchases natural gas at market sensitive prices for resale under various terms to its customers. To provide a back-up supply for these customers, NCO has maintained its long term gas purchase contract with Alberta and Southern Gas Co. Ltd. ("A & S") for the supply of up to 30 mmcf/d for a term that

continues as long as A & S has authorizations to transport gas in Alberta or until A & S ceases to own gas in the facilities operated by Nova, an Alberta Corporation, adjacent to the Wabamun-Hinton pipeline. An additional 10 mmcf/d is available to NCO pursuant to a contract with TransCanada with a term that continues for so long as TransCanada has gas available to it within Alberta.

In 1985, the average throughput of the Wabamun-Hinton pipeline system was 24.9 mmcf/d (9.1 bcf for the year), 3% more than in 1984. Revenue derived from the operation of the system was $9,757,000 for the 1985 year and $3,184,000 for the first quarter of 1986.

Oil and Gas Wells

The following table summarizes NCO's interest as at December 31, 1985 in oil and gas wells which are producing or which NCO considers to be capable of production. All wells that are not producing are shut-in gas wells which are located within 25 miles of transmission facilities.

	Gas Wells		Oil Wells	
	Gross	Net	Gross	Net
Alberta	579	542	47	18
Saskatchewan	519	508	22	18
United States	—	—	9	1
	1,098	1,050	78	37

As at December 31, 1985 NCO had approximately 368,000 gross (339,000 net) developed acres.

Petroleum and Natural Gas Reserves of NCO

D & S has conducted an independent evaluation of NCO's Canadian petroleum and natural gas reserves as at December 31, 1985 in the D & S NCO Report. The D & S NCO Report is available for inspection at the principal office of NCO, 700, 112 - 4th Avenue, S.W., Calgary, Alberta during normal business hours until June 24, 1986.

The results of the D & S NCO Report are summarized in the following tables. The pertinent assumptions and qualifications relating to prices, costs, technical matters and regulatory interpretation are discussed in detail in the D & S NCO Report. It should also be noted that all future net production revenues as set forth in the following tables are stated prior to provision for income taxes and any indirect costs.

It should be emphasized that the D & S NCO Report speaks as of December 31, 1985. Since that date, there has been a material reduction in the world price of oil which has not materially altered NCO's oil and gas reserves. Because most of NCO's reserves are gas, such reduction in the world price of oil has not materially altered the present worth, based on constant price assumptions, of future net oil and gas production revenues. It is possible that there will also be a reduction of the price received by NCO for its natural gas, although there has been none to date. The extent of any such price reductions cannot be determined at this time.

NCO does not represent that a particular discounted future net production revenue as determined by D & S quantifies the fair market value of the reserves.

	Gross Reserves (1)		Net Reserves (1)	
	Oil & NGLs (Mbbls)	Natural Gas (bcf)	Oil & NGLs (Mbbls)	Natural Gas (bcf)
Proved				
Developed producing (2)	2184.3	98.0	1872.1	84.4
Developed non producing (2)	39.5	84.8	32.3	69.7
Undeveloped (2)	—	150.3	—	126.0
Total proved	2223.9	333.1	1904.4	280.1
Probable additional (3)	377.9	59.6	339.1	50.6
Total proved & probable	2601.8	392.7	2243.6	330.7

Present worth of future net production revenue (5) based on escalating price assumptions (4), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	223,735	134,823	114,849	100,729
Developed non producing	278,892	84,598	55,720	39,101
Undeveloped	333,238	110,682	72,545	49,851
Total proved	835,865	330,103	243,114	189,681
Probable additional	184,051	42,831	23,765	14,143
Total proved & probable	1,019,916	372,934	266,879	203,824
PGRT credit (6)	1,500	1,304	1,224	1,154
ARTC (7)	32,206	14,522	11,191	9,085
Total	1,053,721	388,760	279,294	214,062

Present worth of future net production revenue (5) based on constant price assumptions (8), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	170,906	118,282	103,809	92,885
Developed non producing	131,253	49,605	34,866	25,716
Undeveloped	177,141	69,000	47,347	33,716
Total proved	479,300	236,877	186,022	152,317
Probable additional	76,723	20,865	12,422	7,817
Total proved & probable	556,023	257,742	198,444	160,188
PGRT credit (6)	1,500	1,304	1,224	1,154
ARTC (7)	19,054	10,686	8,772	7,458
Total	576,577	269,732	208,440	168,799

Notes:

(1) "Gross reserves" are defined as the company's working interest share of recoverable hydrocarbons before the deduction of any royalties. "Net reserves" are gross reserves less any and all royalties payable to outside parties. Reserves have been determined assuming constant 1986 prices and costs. There is no significant difference in reserve volumes when escalated prices and costs are assumed.

(2) "Proved" reserves are defined as those quantities of crude oil, natural gas, and natural gas liquids which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. Proved reserves have been limited to those quantities of oil and gas which can be expected with little doubt, to be commercially recoverable at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Depending upon their status of development, such proved reserves are subdivided into "proved developed" reserves and "proved undeveloped" reserves. Proved developed reserves are further subdivided into "proved developed producing" and "proved developed non-producing" categories.

Proved developed producing reserves are those reserves which are expected to be produced from completion intervals now on production in existing wells.

Proved developed non-producing reserves are those reserves which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, which are expected to be produced through these wells in the predictable future, where the cost of making such oil and gas available for production is relatively small compared to the cost of a new well. All proved uncontracted gas reserves have been classified as proved non-producing by D & S.

Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units, which are reasonably certain of production when drilled.

(3) D & S defines "probable additional" reserves as those situated in the vicinity of proved properties, but where the geologic and engineering control indicate some degree of risk, or where modifications to the depletion method should result in increased recoverable reserves. Probable additional reserves or revenue forecasts have not been adjusted for risk by D & S.

(4) The escalated dollar summary incorporates the D & S assumptions regarding future increases in the prices of oil and gas (as of January, 1986) and takes into account inflation with respect to future operating and capital costs. Inflation is assumed at 5% in each of 1987 and 1988 and 6% per year thereafter. The schedule of prices used in this evaluation has been increased at an average rate of 7% for oil and 7.4% for gas from 1991 to 2000 and at 6% for both oil and gas thereafter. The price schedule is as follows:

Year	Natural Gas* $/MCF	Oil** $/bbl
1986	2.95	33.25
1987	2.91	33.41
1988	2.99	34.60
1989	3.24	36.67
1990	3.50	38.87
1991	3.76	41.61
1992	4.04	44.53
1993	4.34	47.66
1994	4.66	51.02
1995	5.00	54.60
1996	5.37	58.44
1997	5.77	62.55
1998	6.19	66.95
1999	6.64	71.65
2000	7.13	76.69
2001	7.56	81.29
2002	8.01	86.17
2003	8.50	91.34
2004	9.01	96.82
2005	9.55	102.63

* *Alberta Border Price* Wellhead prices are determined after adjustments for heat content, cost of service, and contract terms.

** *Edmonton City Gate Price (D2S2)* Wellhead prices are determined after adjustments for quality and transportation charges.

(5) The future cash flow is the forecast of income derived from the future production and sale of net reserves using the appropriate price schedule, less all capital expenditures, wellhead taxes, and operating costs but before provision for income taxes.

(6) The petroleum and gas revenue tax ("PGRT") credit is a federal credit of up to $500,000 per year against the PGRT liability of the producer. The PGRT will be phased out by 1989. The values for PGRT credit shown here are for the total proved plus probable reserves.

(7) The Alberta royalty tax credit ("ARTC") is a provincial credit to the producer of 75% of the total Alberta crown royalties paid, to a maximum of $3,000,000 per year. The values for ARTC shown here are for the total proved plus probable reserves. ARTC has not been adjusted to reflect the increase of ARTC effective April 1, 1986 to 75% of total Alberta crown royalties paid.

(8) The constant dollar summary incorporates the 1986 D & S values based on January 1, 1986 prices and costs for oil and gas holds them constant for the life of the reserves. All operating costs and capital expenditures are expressed as uninflated values (1986 dollars).

Additional Information:

The D & S NCO Report includes estimates of future net capital expenditures which are required to recover NCO's share of the oil and gas reserves. These capital expenditures for 1986, 1987 and in total over the estimated recovery period for the reserves can be summarized as follows:

Reserve Category	1986	1987 ($,000)	Total
Proved			
Developed producing	111	—	111
Developed non producing	340	314	7,210
Undeveloped	2,756	3,460	32,036
Total proved	3,207	3,774	39,357
Probable additional	790	2,124	6,013
Total proved and probable	3,997	5,898	45,370

The above figures are expressed in constant 1986 dollars. NCO presently anticipates incurring these capital costs as indicated in such periods.

Approximately 29% of the proved gas reserves and 98% of the proved oil reserves are currently on production as indicated by the D & S NCO Report.

The extent and character of ownership and all factual data pertaining to NCO's petroleum and natural gas properties and contracts (except for certain information residing in the public domain) were supplied to D & S by NCO. D & S accepted this data as presented and neither title searches nor field inspections were considered necessary by D & S. The D & S NCO Report was completed in accordance with generally accepted evaluation principles and the D & S opinion of standard oil industry practices.

No major discovery or other favourable or adverse event that is believed to have caused a significant change in NCO's proved reserves has occurred since December 31, 1985.

Since January 1, 1985, NCO has not filed any proved gas or oil reserve estimates with, or included such estimates in reports to, any governmental agency other than the SEC.

For additional information concerning NCO's reserves see Note 17 to the Consolidated Financial Statements of NCO.

Dependence upon Major Customers

Two customers with whom NCO has gas sales contracts purchase a substantial portion of NCO's natural gas production. The following table summarizes the approximate split of NCO's sales between these two purchasers.

	1985		1984		1983	
	($,000)	%	($,000)	%	($,000)	%
SPC	23,512	38	14,442	28	14,502	37
TransCanada	16,826	27	17,568	34	18,063	46
	40,338	65	32,010	62	32,565	83

Capital Expenditures

The following table shows capital expenditures by NCO for property acquisition, oil and gas exploration and development, and other assets for the periods indicated.

	Three months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
				($,000)		
Property acquisition	469	7,645	8,295	2,936	1,019	1,878
Exploration	4,868	8,158	5,108	2,677	2,582	1,882
Development (1)	1,622	9,339	15,806	9,652	4,978	12,167
Other assets	—	418	1,993	1,235	737	155
Total	6,959	25,560	31,202	16,490	9,316	18,165

(1) Includes capital expenditures for gas gathering and transmission facilities.

Undeveloped Land Holdings of NCO

The undeveloped land holdings of NCO as at December 31, 1985 are set forth in the following table. Fair market value has been estimated by D&S in the D&S NCO Report.

	Acres		Fair Market Value
	Gross	Net	
Alberta	369,251	131,641	$14,041,021
British Columbia	2,642	1,321	113,042
Saskatchewan	273,560	158,305	6,000,902
Manitoba	6,880	3,440	182,320
Total	652,333	294,707	$20,337,285

In addition, at December 31, 1985 NCO had varying interests in approximately 427,199 gross (246,906 net) acres of undeveloped land in the United States and a 2½% working interest in 1,082,500 acres in the Flemish Pass area offshore Newfoundland, none of which has been independently evaluated.

Drilling Activity

The following table sets forth the number of gross and net exploratory and development wells in which NCO has participated in drilling in Canada for the periods indicated.

	Three months ended March 31		Year ended December 31									
	1986		1985		1984		1983		1982		1981	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory												
Producing (1)	15	7.3	35	12.1	16	6.8	12	3.0	38	4.0	22	5.2
Dry	5	0.2	19	6.7	14	13.0	14	5.0	7	4.8	12	2.5
	20	7.5	54	18.8	40	19.8	26	8.0	45	8.8	34	7.7
Development												
Producing (1)	5	0.3	65	48.6	145	142	158	158	69	66	89	86
Dry	0	0	1	1.0	—	—	—	—	—	—	—	—
	5	0.3	66	49.6	145	142.0	158	158.0	69	66.0	89	86.0
Total	25	7.8	120	68.4	185	161.8	184	166.0	114	74.8	123	96.7

(1) Or capable of production although currently shut-in.

In addition, NCO participated in drilling an aggregate 55 gross (7.5 net) wells in the United States over this five year period.

There were no wells drilled in April, 1986 and one gross (0.025 net) well was in the process of drilling as at April 30, 1986.

Investments of NCO

NCO maintains an investment portfolio held by North Canadian Investments Ltd., consisting of preferred and common shares of companies with large market capitalizations whose market values are considered by NCO to be at a substantial discount from their underlying asset values. The investment portfolio also includes notes receivable from an arm's length major Canadian corporation. Over the last three years NCO invested surplus funds arising from equity issues in high-yield, low-risk marketable securities pending utilization in the oil and gas business. Such investments may include investments in related companies which vary in amounts from time to time. The objective is to earn an acceptable return from dividends without exposure to excessive risk. The portfolio was valued at $305,232,000 as at March 31, 1986, based on current trading values as at that date and consists of $240,232,000 of marketable preferred and common shares and $65,000,000 of long term notes receivable.

Selected Financial Information and Per Share Data of NCO

The following table summarizes certain selected financial and per share data in accordance with generally accepted accounting principles in Canada and is qualified by the more detailed "Consolidated Financial Statements of NCO" and "Pro Forma Financial Information and Per Share Data of NCO".

	Three months ended March 31		Year ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(Unaudited)		($,000 except per share data)				
Financial Data (1)							
Revenues	40,229	39,639	149,557	80,449	46,741	31,394	22,786
Net income from continuous operations	6,378	8,767	22,966	24,010	16,577	11,894	5,929 (2)
Total assets (at end of period)	797,097	803,043	798,558	664,020 (6)	226,158	140,635	84,440
Long-term debt (at end of period)	302,770	381,442	327,622	254,387	88,384	47,852	6,851
Per Common Share Data (1) (3)							
Net income per common share							
— basic	.42	.80	1.21	2.26	1.87	1.38	1.35 (4)
— fully diluted	.33	.40	1.10	1.59	1.57	1.38	1.35
Cash dividend per common share	—	—	—	—	—	—	—
Book value per common share	12.83		12.51				
Pro forma net income per common share							
— basic	.34 (5)		1.11 (5)				
— fully diluted	.29 (5)		1.04 (5)				
Pro forma book value per common share	12.71 (5)		12.29 (5)				

(1) The financial and per common share data includes the assets, liabilities and operations of Bankeno, acquired effective September 28, 1984 and Bankeno's 53% interest in Merland.

(2) Before equity in income (loss) of an affiliate and extraordinary items and after tax gain on disposal of coal properties.

(3) Giving effect to 3:2 common share split in 1985.

(4) After deducting $0.12 relating to extraordinary item.

(5) Based on "Pro Forma Financial Information and Per Share Data Statements of Amalgamated NCO".

(6) Restated as set out in Note 2 to the Consolidated Financial Statements of NCO.

Consolidated Capitalization of NCO

	Authorized Shares	Outstanding March 31, 1986 Shares	Outstanding March 31, 1986 Amount ($,000's)	Outstanding April 30, 1986 Shares	Outstanding April 30, 1986 Amount ($,000's)
Long term debt (1)					
Bank loans (2)			38,756		58,017
Loans from affiliates (3)			127,400		110,100
11¼% sinking fund debentures (4)			2,938		2,938
8% convertible debentures (5)			50,000		50,000
10% debentures (6)			70,143		70,143
Income debentures (7)			16,380		16,290
Mining loans (8)			4,474		4,474
			310,091		311,962
Deferred revenue			25,036		25,036(13)
Deferred income and resource taxes			46,727		46,727(13)
Minority interest			70,053		70,053(13)
Share capital					
5½% preferred shares	20,149	15,546	777	15,546	777(13)
Class A Junior					
Preferred shares	10,000,000				
Series 1	2,000,000	2,000,000	50,000	2,000,000	50,000
Class B Junior					
Preferred shares	10,000,000				
Series 1	1,000,000	1,000,000	20,000	1,000,000	20,000
Series 2	800,000	800,000	20,000	800,000	20,000
Series 3	2,300,000	2,158,545	64,756	2,158,545	64,756
Series 4 (9)	2,857,145				
Series 5 (10)	2,857,145				
Class A shares	20,000,000				
Common shares (11)	20,000,000	10,906,239	44,895	10,906,239	44,895
			200,428		200,428
Retained earnings (12)			95,080		95,080(13)
Shareholders' equity			295,508		295,508
Total capitalization			747,415		749,286

(1) Includes the debt of Bankeno and Merland.

(2) From Canadian chartered banks pursuant to (i) a $60,000,000 revolving demand credit facility to NCO which bears interest at floating rates approximating prime and is secured by a hypothecation of 1,500,000 Class A Series A shares of North Canadian Investments Ltd.; (ii) two $10,000,000 unsecured revolving demand credit facilities to NCO which bear interest at prevailing bank prime rate; and (iii) an $82,000,000 unsecured revolving demand credit facility to Merland which bears interest at prevailing bank prime rate.

(3) Pursuant to (i) a $60,000,000 unsecured revolving term credit facility to NCO which bears interest at prevailing bank prime rate; (ii) a $10,000,000 revolving term credit facility to North Canadian Investments Ltd. which bears interest at prevailing bank prime rate and is secured by a hypothecation of marketable securities; (iii) a $60,000,000 revolving demand credit facility to Bankeno which bears interest at prevailing bank prime rate and is secured by a pledge of 11,204,974 common shares of Merland and 56,030 Merland Preferred Series A Shares; and (iv) a $55,000,000 unsecured revolving term credit facility to North Canadian Investments Ltd. which bears interest at prevailing bank prime rate.

(4) The 11¼% sinking fund debentures are secured by certain NCO oil and gas properties. The debentures mature on August 31, 1988. The annual sinking fund obligation is $971,000 for 1986 and 1987 and $1,775,000 for 1988.

(5) The 8% convertible debentures are unsecured, and are convertible at $17.50 per share (subject to adjustment) into NCO Class B Series 4 Shares at the option of the holder at any time until maturity and into NCO Class B Series 5 Shares at the option of NCO at any time until December 31, 1986. The debentures mature September 30, 1996.

(6) The 10% debentures are secured by a pledge of common shares of Bankeno and mature on September 28, 1994.

(7) Income debentures are secured by assignments of certain Merland oil and gas properties under section 177 of the Bank Act. Principal is payable in quarterly installments with a final maturity date of June 30, 1988. Interest is at one half of prime plus 1⅛%.

(8) The mining loan bears interest at prevailing bank prime rate and is repayable from proceeds of a royalty interest in the Polaris Mine.

(9) Issuable upon the conversion, at the option of the holder at any time until maturity, of 8% convertible debentures.

(10) Issuable upon the conversion, at the option of NCO at any time until December 31, 1986, of 8% convertible debentures.

(11) Does not include 27,000 (354,152 at April 30, 1986) common shares issuable upon the exercise of outstanding employee stock options, 8,794,961 common shares issuable in the aggregate upon the conversion of issued and outstanding NCO Class B Series 1 Shares, NCO Class B Series 2 Shares, NCO Class B Series 3 Shares and 8% convertible debentures.

(12) Includes contributed surplus of $142,000.

(13) Amounts are as at March 31, 1986.

Description of Share Capital of NCO

The following is summary of certain attributes of the share capital of NCO.

NCO 5½% Preferred Shares

There are 20,149 NCO 5½% Preferred Shares authorized, each with a par value of $50, of which 15,546 are currently issued and outstanding. The NCO 5½% Preferred Shares earn cumulative dividends at an annual rate of 5½%, payable semi-annually. The holders of NCO 5½% Preferred Shares have the right to vote at an annual or extraordinary meeting of NCO if four consecutive semi-annual installments of the dividend are not paid. NCO may redeem all or part of the NCO 5½% Preferred Shares at any time. NCO is obligated to set aside, as a sinking fund, $100,000 per year and use such funds to purchase or redeem NCO 5½% Preferred Shares for the purpose of cancellation or retirement. The NCO 5½% Preferred Shares have a priority over other classes in the declaration of dividends and in the distribution of assets to the extent of the par value.

Class A Junior Preferred Shares

The NCO Class A Junior Preferred Shares rank junior to the NCO 5½% Preferred Shares with respect to all rights, privileges, restrictions and other conditions. There are 10,000,000 shares of this class authorized, and they are issuable in series, of which one series has been issued. Each series of NCO Class A Junior Preferred Shares ranks on a parity with every other series with respect to priority in declaration of dividends and distribution of assets. The NCO Class A Junior Preferred Shares have priority in the declaration of dividends and in the distribution of assets to the extent of stated value over other classes, other than the NCO 5½% Preferred Shares.

(a) *NCO Class A Series 1 Shares*

There are 2,000,000 authorized and issued NCO Class A Series 1 Shares, each with a stated capital of $25.00. Holders of NCO Class A Series 1 Shares are entitled to cumulative preferential dividends, payable quarterly, at an annual rate of 70% of the average floating prime rate of certain Canadian chartered banks. These shares are redeemable by NCO under certain conditions after June 30, 1989, at specified prices that depend on the time of redemption. Holders of NCO Class A Series 1 Shares shall have the right to vote at meetings of shareholders if, at any time, eight quarterly dividends are not paid in the aggregate.

NCO Class B Junior Preferred Shares

The NCO Class B Junior Preferred Shares rank junior to the NCO 5½% Preferred Shares and the NCO Class A Junior Preferred Shares with respect to all rights, privileges, restrictions and other conditions. There are 10,000,000 NCO Class B Junior Preferred Shares authorized and they are issuable in series, of which five series have been designated. Each series of NCO Class B Junior Preferred Shares ranks on a parity with other such series with respect to priority in declaration of dividends and distribution of assets. The NCO Class B Junior Preferred Shares have priority in the declaration of dividends and in the distributions of assets to the extent of

stated value over other classes other than the NCO 5½% Preferred Shares and NCO Class A Junior Preferred Shares.

(a) *NCO Class B Series 1 Shares*

There are 1,000,000 authorized and issued NCO Class B Series 1 Shares, each with a stated value of $20.00. Holders of NCO Class B Series 1 Shares are entitled to cumulative preferential dividends, payable semi-annually, at an annual rate of ½ of the floating prime rate of a Canadian chartered bank, plus 1%. NCO may redeem any of these shares at any time, although redemption prior to April 30, 1993 requires that certain conditions be met. Holders of NCO Class B Series 1 Shares have the right to vote at meetings of shareholders of NCO if, at any time, four semi-annual dividends are not paid in the aggregate. The NCO Class B Series 1 Shares are convertible into common shares of NCO prior to April 30, 1993 at the rate of one and one-half common shares for each NCO Class B Series 1 Share, subject to adjustment in certain circumstances.

(b) *NCO Class B Series 2 Shares*

There are 800,000 authorized and issued NCO Class B Series 2 Shares, each with a stated value of $25.00. Holders of the NCO Class B Series 2 Shares are entitled to cumulative preferential dividends, payable semi-annually, at an annual rate of ½ of the floating prime rate of a Canadian chartered bank, plus 1%. NCO may redeem any of these shares at any time, although redemption prior to September 2, 1993 requires that certain conditions be met. Holders of NCO Class B Series 2 Shares have the right to vote at meetings of shareholders of NCO if, at any time, four semi-annual dividends are not paid in the aggregate. The NCO Class B Series 2 Shares are convertible into common shares of NCO prior to September 2, 1993 at the conversion rate of one and one-half common shares for each NCO Class B Series 2 Share, subject to adjustment in certain circumstances.

(c) *NCO Class B Series 3 Shares*

There are 2,300,000 authorized and 2,158,545 issued NCO Class B Series 3 Shares, each with a stated value of $30.00. Holders of NCO Class B Series 3 Shares are entitled to cumulative preferential dividends, payable quarterly, at an annual rate of ½ the floating prime rate of a Canadian chartered bank. NCO may redeem any of these shares at any time, although redemption prior to September 28, 1989 requires that certain conditions be met. The holders of NCO Class B Series 3 Shares have the right to vote at meetings of shareholders of NCO if, at any time, eight quarterly dividends are not paid in the aggregate. The NCO Class B Series 3 Shares are convertible into common shares of NCO up to September 28, 1989 at the conversion rate of one and one-half common shares for each NCO Class B Series 3 Share, subject to adjustment in certain circumstances.

(d) *NCO Class B Series 4 Shares and NCO Class B Series 5 Shares*

None of the NCO Class B Series 4 or 5 Shares have been issued. Both NCO Class B Series 4 and NCO Class B Series 5 Shares were created for a limited purpose — for use only by the holders of 8% convertible debentures in exercising their right to convert such debentures at any time until maturity into NCO Class B Series 4 Shares or the conversion by NCO of such debentures at any time until December 31, 1986 into NCO Class B Series 5 Shares. The 8% convertible debentures mature September 30, 1996. There are 2,857,145 authorized shares of each series and for each share issued of either of these two series, the authorized and unissued number of the other series shall be decreased by 1. Holders of each series are entitled to preferential dividends, which are non-cumulative prior to October 1, 1993 and cumulative thereafter. Dividends are payable annually on each series at an annual rate equal to ½ of the floating prime rate of a Canadian chartered bank for the NCO Class B Series 4 Shares and equal to ½ of the floating prime rate of a Canadian chartered bank plus 2½% for the NCO Class B Series 5 Shares. Both series of shares are redeemable by NCO after October 1, 1990 if certain conditions are met. A proportionate number of outstanding NCO Class B Series 4 and NCO Class B Series 5 Shares must be redeemed at the same time. Both series of shares are convertible at any time up to September 30, 1993 into common shares at the conversion rate of one common share for each NCO Class B Series 4 or NCO Class B Series 5 Share converted, subject to adjustment in certain circumstances.

NCO Class A Shares

There are 20,000,000 NCO Class A Shares authorized, none of which has been issued. The NCO Class A Shares rank junior to the NCO 5½% Preferred Shares, the NCO Class A Junior Preferred Shares and the NCO Class B Junior Preferred Shares with respect to all rights, conditions and limitations. Holders of NCO Class A shares are entitled to non-cumulative preferential dividends of $0.10 semi-annually per share, payable quarterly or half-yearly as determined by the directors. The holders of common shares are not entitled to any dividends until the $0.10 semi-annual dividend to the NCO Class A Shares for that period has been paid. If such dividends have been paid and the holders of common shares have received an equal amount of dividends for that period, all further dividends other than dividends on any shares ranking in priority to the NCO Class A Shares are payable in equal amounts per share on all NCO Class A Shares and all common shares of NCO at the time outstanding without preference or distinction. NCO Class A Shares have a preference over the common shares of NCO with respect to the distribution of the assets to the extent of all declared and unpaid preferential dividends and then share equally in the distribution, share for share, with the holders of the common shares without preference or distinction. Holders of NCO Class A Shares are generally not entitled to vote at meetings of shareholders except as may be provided by law.

Common Shares

The common shares rank junior to the NCO 5½% Preferred Shares, the NCO Class A and NCO Class B Junior Preferred Shares and the NCO Class A Shares with respect to the prior rights, preferences, priorities, limitations, conditions and restrictions attaching to such shares. Holders of common shares of NCO are entitled to one vote per share at meetings of shareholders, to receive such dividends as are declared by NCO and to receive the remaining property and assets of NCO upon its dissolution or winding up.

Holders of common shares of NCO have cumulative voting rights in respect of an election of directors. Each holder has the right to cast a number of votes equal to the number of votes attached to the common shares held by him multiplied by the number of directors to be elected, and may cast all such votes in favour of one candidate or distribute them among the candidates in any manner.

Dividend Record of NCO

NCO has paid dividends on its outstanding 5½% Preferred Shares, Class A Series 1 Shares, Class B Series 1 Shares, Class B Series 2 Shares, and Class B Series 3 Shares since their respective dates of issue at the rate and times stated in their respective provisions.

To date, NCO's policy has been not to pay dividends on its common shares, but rather to reinvest its earnings in its business activities. This policy is periodically reviewed by the board of directors.

Price Range and Trading Volume of Listed NCO Shares

Common Shares

The common shares of NCO are listed and traded on each of the TSE and AMEX . The following table sets out the high and low prices and trading volume of the common shares as reported by such exchanges for the periods indicated, and have been adjusted to reflect the 3 for 2 share split effected August 8, 1985.

	TSE			AMEX		
	Selling Price		Volume	Selling Price		Volume
	High	Low		High	Low	
	($)			(U.S.$)		
1984						
First Quarter	12.67	11.33	245,173	10.75	9.33	298,350
Second Quarter	15.50	12.83	312,477	12.00	10.00	337,650
Third Quarter	15.67	12.16	283,981	11.92	9.17	385,500
Fourth Quarter	15.25	12.50	148,702	11.58	9.42	240,300
1985						
First Quarter	15.11	12.38	238,152	11.00	9.42	411,450
Second Quarter	15.50	12.67	172,767	11.50	9.50	205,650
Third Quarter	14.33	13.33	218,391	11.16	7.08	219,000
Fourth Quarter	14.87	13.00	416,808	10.75	9⅜	198,900
1986						
January	14.50	12.50	58,577	10.38	8.87	69,300
February	12.63	10.75	45,100	8.38	7.50	49,600
March	12.75	11.00	31,348	9.13	7.87	39,800
April	12.50	10.50	10,820	9.00	7.75	44,700

On April 30, 1986 the closing price of the common shares as reported by the TSE was $11.00 and by AMEX was (U.S.) $7.87. As at April 30, 1986 there were 4,400 holders of record of NCO common shares.

NCO 5½% Preferred Shares

The NCO 5½% Preferred Shares are listed and traded on the TSE. The following table sets out the high and low prices and trading volume of the NCO 5½% Preferred Shares as reported by such exchange for the periods indicated.

	Selling Price ($)		Volume
	High	Low	
1984			
First Quarter	32¼	31¾	175
Second Quarter	34	31¾	1,060
Third Quarter	33¾	31¼	165
Fourth Quarter	34½	32¾	705
1985			
First Quarter	36	32	1,148
Second Quarter	37	35	1,213
Third Quarter	38	36¼	719
Fourth Quarter	37½	36⅜	205
1986			
January	37½	37	160
February		no trades	
March	38	37	200
April	39	39	210

On April 30, 1986 the closing price of the NCO 5½% Preferred Shares as reported by the TSE was $39.00. As at April 30, 1986 there were approximately 230 holders of record of NCO 5½% Preferred Shares.

NCO Class B Series 3 Shares

The NCO Class B Series 3 Shares were listed for trading on the TSE on August 9, 1985. The following table sets out the high and low prices and trading volume of the NCO Class B Series 3 Shares as reported by such exchange for the periods indicated.

	Selling Price ($)		Volume
	High	Low	
1985			
Third Quarter	25	23	3,382
Fourth Quarter	24	23½	5,336
1986			
January	24½	23	1,658
February	22½	22	200
March	22	19½	212
April	21	21	4,825

On April 30, 1986 the closing price of the NCO Class B Series 3 Shares as reported by the TSE was $21.00. As at April 30, 1986 there were approximately 200 holders of record of NCO Class B Series 3 Shares.

NCO Directors

The following table sets forth certain information with respect to the persons who are the directors of NCO. Except for Mr. Gish, who was appointed a director on December 19, 1985, all of the directors were elected by the shareholders of NCO at the annual general meeting of shareholders held on July 8, 1985 and have served continuously since the year first elected.

Name and Residence	Principal Occupation for the Past Five Years and Management Position if any, with NCO	Year First Elected as Director	Age
Donald F. Christensen Calgary, Alberta	Senior Vice-President, Exploration and Land, of NCO and Merland since February, 1986; prior thereto, Senior Vice-President and Chief Operating Officer of NCO since March 1985; prior thereto, Senior Vice-President, Operations of NCO since June 1981; prior thereto, Vice-President, Exploration of NCO	1981	58
Norman R. Gish Calgary, Alberta	(4)	1985	50
Marshall A. Jacobs (1) New York, New York	(4)	1963	66
James F. Kay (1)(3)(5) Toronto, Ontario	(4)	1977	64
David W. Kerr (1)(2)(3) Toronto, Ontario	(4)	1982	42
Willard J. L'Heureux, Q.C. (1)(3) Toronto, Ontario	(4)	1983	38

Name and Residence	Principal Occupation for the Past Five Years and Management Position if any, with NCO	Year First Elected as Director	Age
Charles K. Lough Calgary, Alberta	Senior Vice-President, Corporate Development of NCO and Merland since February, 1986; prior thereto, Senior Vice-President, Chief Operating Officer and Secretary of NCO since March 1985; prior thereto, Senior Vice-President, Finance and Administration and Secretary of NCO.	1975	58
Ross A. MacKimmie, Q.C. (2) Calgary, Alberta	(4)	1969	69
R. Bryan McJannet (1)(2) Toronto, Ontario	President of Dexleigh Corporation (real estate) since June, 1984; prior thereto since 1982 President of Foodex Inc. (restaurant business); prior thereto since September, 1981 Senior Vice-President of Hees International Corporation; prior thereto Assistant General Manager, Protea Assurance Co. Ltd.	1982	46
Douglas W. Miller Calgary, Alberta	(4)	1985	56

(1) Member of the Executive Committee.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) These directors will also be directors of Amalgamated NCO. For a description of their principal occupations for the last five years and their management position, if any, with Amalgamated NCO see "Directors of Amalgamated NCO".

(5) Chairman of the Board

Executive Officers of NCO

The following persons are the executive officers of NCO.

Grant D. Billing is the Senior Vice-President, Finance and Administration and the Corporate Secretary.

Donald F. Christensen is the Senior Vice-President, Exploration and Land.

Norman R. Gish is the President and Chief-Executive Officer.

Charles K. Lough is the Senior Vice-President, Corporate Development.

William A. Trickett is the Senior Vice-President, Operations.

These individuals hold office at the pleasure of the board of directors of NCO, and will be employed as officers in like capacities by Amalgamated NCO. For a description of their experience and expertise see "Executive Officers of Amalgamated NCO".

Principal Holders of NCO Shares

According to information available to management, as of April 30, 1986, no person owned beneficially more than 5% of the outstanding common shares of NCO except Hees and James F. Kay. In addition, CBOC and CIBC may also be deemed to own beneficially more than 5% of the outstanding common shares of NCO, because of ownership of Class B Series 2 and Series 3 shares, respectively.

Hees is a financial company providing corporate finance and management services to a wide range of clients. Approximately 26.5% of the voting shares of Hees are beneficially owned by Edper Investments Ltd.

and approximately 16.6% are beneficially owned by Mico Consolidated Limited. Approximately 54% of the outstanding voting shares (100% of the common shares) of Mico Consolidated Limited are beneficially owned directly or indirectly by Edper Investments Ltd. David W. Kerr and Willard J. L'Heureux, Q.C., directors of NCO and to be directors of Amalgamated NCO, are officers of Hees. David W. Kerr and Norman R. Gish, directors of NCO and to be directors of Amalgamated NCO, are directors of Hees. R. Bryan McJannet, a director of NCO, is an officer of Hees. In addition, Hees owns 34% of the voting securities of Carena Bancorp Inc. which in turn owns 19% of the voting securities of CBOC. Willard J. L'Heureux, a director of NCO and to be a director of Amalgamated NCO, is President of Carena Bancorp Inc.

Edper Investments Ltd. indirectly controls a corporation which owns 63% of the voting securities of Westmin Resources Limited, of which Douglas W. Miller, a director of NCO and to be a director of Amalgamated NCO, is Executive Vice-President and President, Petroleum Division.

The following table sets forth certain information concerning the beneficial ownership as of April 30, 1986 of common shares of NCO by Hees and Mr. Kay, and the deemed ownership (assuming conversion of preferred shares) as of April 30, 1986 of CBOC and CIBC within the meaning of Rule 13d-3 under the United States Securities Exchange Act of 1934.

	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Hees International Corporation Toronto, Ontario	5,506,703 (2)	45
James F. Kay Toronto, Ontario	2,134,500 (3)	20
Continental Bank of Canada Toronto, Ontario	1,200,000 (4)	10
Canadian Imperial Bank of Commerce Toronto, Ontario	3,000,000 (5)	22

(1) The beneficial owners have sole voting and investment power over the shares owned except as otherwise set forth herein. Beneficial ownership is the direct ownership of common shares of NCO including the right to control the vote or investment or acquire such common shares within the meaning of Rule 13d-3 under the United States Securities Exchange Act of 1934. The shares owned by each person and the shares included in the total number of shares outstanding have been adjusted in accordance with said Rule 13d-3. Thus the total shares to be outstanding used in calculating the "Percent of Class" for each holder consists of common shares outstanding plus any common shares issuable on conversion of the outstanding NCO Class B Series 1, 2 and 3 shares beneficially owned by such holder and deemed to be outstanding under Rule 13d-3.

(2) Includes 1,500,000 common shares issuable upon conversion of 1,000,000 Class B Series 1 Shares, beneficially owned by Hees.

(3) Such common shares are owned by a corporation wholly-owned by Mr. Kay, the outstanding shares of which are pledged to Hees.

(4) Such 1,200,000 common shares are issuable upon conversion of 800,000 Class B Series 2 Shares beneficially owned by CBOC.

(5) Such 3,000,000 common shares are issuable upon conversion of 2,000,000 Class B Series 3 Shares beneficially owned by CIBC.

The following table sets forth certain information concerning the beneficial ownership as of April 30, 1986 of common shares of NCO by the directors and officers of NCO. Except as otherwise noted, the beneficial owners have sole voting and investment power over the shares owned.

	Amount and Nature of Beneficial Ownership (1)	Percent of Class (4)(5)
Directors		
James F. Kay	2,134,500 (2)	20
Donald F. Christensen	44,100 (3)	—
Marshall A. Jacobs	8	—
David W. Kerr	48,210	—
Norman R. Gish	80,000 (3)	—

	Amount and Nature of Beneficial Ownership (1)	Percent of Class (4)(5)
Directors		
Willard J. L'Heureux, Q.C.	32,500	—
Charles K. Lough	76,380 (3)	—
Ross A. MacKimmie, Q.C.	31	—
R. Bryan McJannet	17,710	—
Douglas W. Miller	Nil	—
All directors and officers of NCO as a group (4)	2,464,339 (3)(4)	22.6

(1) See Note 1 of the above table.

(2) These common shares are owned by a corporation wholly-owned by Mr. Kay, the outstanding shares of which are pledged to Hees.

(3) Includes 32,100 common shares purchased by Mr. Christensen, 47,000 common shares purchased by Mr. Lough, 80,000 purchased by Mr. Gish and 17,250 common shares purchased by other officers pursuant to rights granted under the NCO Management Share Purchase Plan. Such common shares are held by the trustee under the NCO Management Share Purchase Plan to secure loans made by NCO to such employees to purchase such shares. The employees may vote the shares held by the trustee.

(4) Includes 450 shares owned by the wife of an officer of NCO.

(5) Greater than 1%.

At April 30, 1986, none of the directors or officers of NCO beneficially owned equity securities of NCO, Hees or any other corporation which may be deemed to be a parent or subsidiary of NCO except as set forth above and except as follows: David W. Kerr, a director of NCO, beneficially owned 397,800 (1.1%) of the common shares of Hees, 2,000 Merland common shares and 10,000 Bankeno common shares; Willard J. L'Heureux, Q.C., a director of NCO, beneficially owned 165,000 (0.4%) of the common shares of Hees, 2,000 Merland common shares and 300 Merland Preferred Series B Shares; R. Bryan McJannet, a director of NCO, beneficially owned 87,000 (0.2%) of the common shares of Hees; Norman R. Gish, an officer and director of NCO, beneficially owned 4,000 common shares of Hees and Charles W. Lough, an officer and director of NCO beneficially owned 1,000 common shares of Hees; and Mr. Lough's wife beneficially owned 1,000 common shares of Hees as to which Mr. Lough disclaims beneficial ownership.

Remuneration of NCO Directors and Officers

The following table sets forth certain information relative to the remuneration paid in 1985 to the directors of NCO, and to officers of NCO who received more than $40,000.

	Nature of Remuneration To Be Earned			
	Directors' Fees	Salaries	Other	Total
Remuneration of Directors (1)	$14,500	—	—	$ 14,500
Remuneration of Officers (2)	—	$483,678	$153,597 (3)	$637,275

(1) There were eleven directors until the NCO annual meeting held July 8, 1985, and nine directors throughout the remainder of 1985, until Mr. Gish was appointed on December 19, 1985. All directors' fees were paid by NCO, and were paid to directors who were not officers of NCO or affiliates for serving as members of the Board of directors and committees of the Board. These directors were entitled to $2,500 annually plus $250 per meeting attended. Members of committees (other than members of the Executive Committee, who received no additional remuneration) were paid $250 per meeting of the committee attended.

(2) There were five such officers throughout 1985, all of the salaries of which were paid by NCO.

(3) Consists of car benefits, club dues, payments under the NCO Employee Profit Sharing Plan and the NCO Employee Production Incentive Plan, and inputed interest on loans for the purchase of common shares of NCO.

The following table sets forth the compensation for services in all capacities rendered in 1985 paid or payable by NCO and its subsidiaries to each of the five most highly compensated officers and all officers as a group.

Name of individual or number of persons in group	Capacities in which served	Cash Compensation (1)	
		Included in pension base (2)	Not in pension base (3)
Donald F. Christensen	Officer	$107,078	$14,636
Benjamin L. Cook	Officer	101,800	12,196
B.A. Kurucz	Officer	66,000	4,000
Charles K. Lough	Officer	118,800	—
W. Keith Miller	Officer	86,000	4,784
All officers (as a group consisting of Messrs. Christensen, Cook, Kurucz, Lough, and Miller)	Officers	$479,678	$35,615

(1) Compensation in the above table does not include dollar amounts representing the cost to NCO of club dues, an imputed interest rate on loans for the purchase of common shares of NCO and a portion of the cost of company cars estimated for the personal use of the named officers as follows: Mr. Christensen, $36,173; Mr. Kurucz, $18,774, Mr. Lough, $53,364; and Mr. Miller, $13,619.

(2) Compensation included in pension base consists of base salaries only.

(3) Compensation not included in pension base consists of royalty payments received in 1985 by Mr. Christensen, Mr. Cook and Mr. Miller pursuant to royalty interests granted pursuant to the NCO Employee Profit Sharing Plan, and payments pursuant to the NCO Employee Production Incentive Plan and a $4,000 bonus received by Mr. Kurucz.

NCO Employee Contracts

NCO has employment contracts with Donald F. Christensen, Senior Vice-President Exploration and Land, with Charles K. Lough, Senior Vice-President, Corporate Development, Bill A. Kurucz, Treasurer and W. Keith Miller, Vice-President, Marketing. The contracts provide for employment by NCO for year to year terms ending December 31. Under the agreements, as amended, the minimum annual compensation payable to each of Messrs. Christensen, Lough, Kurucz and Miller is $114,276, $126,000, $70,000 and $90,300, respectively. The agreements provide for a severance pay formula based upon years of service if terminated by NCO without cause. Messrs. Christensen and Lough will continue to be employed by Amalgamated NCO as executive officers in capacities similar to which they presently hold with NCO. NCO had an employment contract with Benjamin L. Cook which was terminated effective February 3, 1986. In connection with such termination NCO agreed to pay Mr. Cook a severance amount of $130,000 (U.S.). In addition NCO has retained Mr. Cook as a consultant for a period ending December 31, 1986 for a fee of $70,000 (U.S.).

NCO Pension Plan

NCO maintains a contributory pension plan (the "NCO Pension Plan") which is available to all regular employees of NCO, including officers. Under the NCO Pension Plan each participant contributes 5% of his salary and the balance of the cost is contributed by NCO. Pursuant to an amendment adopted in 1983, the NCO Pension Plan provides for a pension at age 65, the amount of which depends on length of service and earnings prior to retirement. The Canada Pension Plan is integrated with the NCO Pension Plan. The years of pensionable service under the Plan for Mr. Lough are 12, for Mr. Christensen are 11, for Mr. Miller are 15 and for Mr. Kurucz are eight.

The following table shows the estimated annual retirement benefits payable under the life annuity form of pension at the age of 65 for specified remuneration and years of service under the NCO Pension Plan, as amended, including pension amounts payable under the Canada Pension Plan. The remuneration on which benefits are based is the employee's base salary.

Final Average Earnings (1)	Years of Service				
	15	20	25	30	35
$ 60,000	$15,678	$20,904	$26,130	$31,356	$36,582
75,000	20,178	26,904	33,630	40,356	47,082
100,000 and over	25,725	34,300	42,875	51,450	60,025

(1) The final average earnings is the highest five year average over the last ten year period prior to retirement.

NCO Employee Profit Sharing Plan

Effective July, 1979, the board of directors of NCO adopted an Employee Profit Sharing Plan ("NCO EPSP"). Only technical and other personnel, including officers, directly involved in NCO's gas and oil exploration and development were eligible to participate in the NCO EPSP. Prior to 1984 NCO's contributions to the NCO EPSP consisted of a gross overriding royalty interest (net of all lessor royalties and other charges) having a nominal fair market value at the time of contribution as determined by independent appraisal. Royalty payments on the royalty interests vest as and when paid, conditional upon continued employment. Contribution of royalty interests to the NCO EPSP were discontinued December 31, 1983. The aggregate cost to NCO in 1985 of payments made to participants under the NCO EPSP was $48,012.

NCO Employee Production Incentive Plan

Effective January 1, 1984, the board of directors adopted an Employee Production Incentive Plan ("NCO EPIP") intended to substantially replace the EPSP. Only technical and other personnel, including officers, directly involved in NCO's gas and oil exploration and development program are eligible to participate in the NCO EPIP. Contributions to the NCO EPIP by NCO are made in the form of a revenue contribution determined on a formula basis from production from defined wells. The Compensation Committee determines annually the amounts to be allocated to the accounts of the participants based upon an evaluation of the respective participant's performance. Revenue contributions vest as and when paid, conditional upon continued employment. The aggregate cost to NCO in 1985 of payments made to participants under the NCO EPIP was $24,715. Effective July 1, 1986 no further wells will be defined under the NCO EPIP, except for wells drilled up to April 1, 1987 in certain designated areas.

NCO Share Option Plan

Effective April 16, 1986 the board of directors of NCO adopted the NCO Share Option Plan, subject to approval of the holders of NCO common shares. By approving the Amalgamation Agreement, which provides that Amalgamated NCO shall adopt the NCO Share Option Plan, the shareholders of NCO and Merland shall be considered to approve the adoption by NCO of the NCO Share Option Plan. Certain provisions of the NCO Share Option Plan are summarized as follows.

(a) Administration

The NCO Share Option Plan is administered by a committee consisting of three members of the board of directors of NCO, each of whom is appointed by the board and is ineligible to participate in the NCO Share Option Plan.

(b) Eligibility

Options under the NCO Share Option Plan may be granted to full-time employees or other persons in the full-time service of NCO or its affiliates, as selected by the committee.

(c) Common Shares Available for Options

Options may be granted from time to time under the NCO Share Option Plan for that number of common shares of NCO not greater than 10% of the number of common shares which are outstanding at the time of the granting of the option less the number of common shares reserved for issuance under the NCO Management Share Purchase Plan. The number of common shares subject to an option under the NCO Share Option Plan to any one person is not to exceed 5% of the number of common shares outstanding at the time the option is granted. Common shares covered by options which have terminated without having been exercised are available for subsequent options. In the event of certain changes to the Common Shares of NCO, the board of directors of NCO may, to prevent substantial dilution or enlargement of the rights of holders of the options, make such adjustments to the options as the directors deem equitable.

(d) Exercise Price

The exercise price at which optioned shares may be purchased is fixed by the committee at the time the option is granted, provided that the price shall not be less than the permitted discount from market price as provided for by the applicable rules of the stock exchanges on which the common shares are listed.

(e) Restrictions on Exercise of Options and Termination

An option granted under the NCO Share Option Plan may be exercised during an option period which may vary in length for each option but which may in no event be less than one year or exceed ten years from the date of grant, subject to the restrictions described below.

The holder of an option is entitled to exercise his option and purchase in any year (beginning one year less one day from the date of the grant or on an anniversary of such day during the option period) a number of optioned shares not greater than the total number of optioned shares divided by the number of years in the option period, plus any shares which he was entitled to purchase in previous years but did not. Upon termination of employment of the holder of an unexercised option (except in the event of death, for which other provision is made), such an option will terminate (i) immediately with respect to any shares which the optionee was not entitled to purchase at the time of termination and (ii) within 30 days with respect to all other optioned shares.

(f) Assignment

An option granted to an employee under the NCO Share Option Plan is not transferable or assignable by the employee other than by will or the laws of descent or distribution.

(g) Interpretation, Amendment and Termination

The board of directors may interpret and, with certain limitations, amend the NCO Share Option Plan and prescribe, amend and rescind rules and regulations relating to it. The board of directors may also suspend, discontinue or terminate the NCO Share Option Plan.

(h) Income Tax Consequences

There are no income tax consequences to NCO which arise as the result of the establishment of or the performance by NCO of its obligations under the NCO Employee Share Option Plan. There may be certain income tax consequences under the Tax Act (Canada) to persons exercising options granted under the NCO Employee Share Option Plan.

On April 16, 1986 options which expire April 16, 1991 were granted under the NCO Employee Share Option Plan for an aggregate of 327,152 common shares at an exercise price of $12.00 per share. The exercise price was equal to the closing price of NCO common shares of $12.00 on the TSE on the date the option was granted. Included in these options were options for an aggregate of 30,302 common shares granted to officers who received remuneration in excess of $40,000 in 1985, which were the only options granted to such persons since January 1, 1985. No options were granted to directors. All options were granted in consideration of services rendered to NCO by such persons. The trading range of NCO common shares on the TSE in the 30 days preceding April 16, 1986 was $11.50 to $12.50.

Benefits During Last Five Years for Officers and Employees of NCO

During the period from January 1, 1981 through April 30, 1986, NCO paid bonuses as follows: Mr. Lough — $50,000; Mr. Christensen — $50,000; Mr. Miller — $34,400; Mr. Cook — $43,000; Mr. Kurucz — $31,100; and all employees other than Messrs. Lough, Christensen, Cook, Miller and Kurucz as a group — $67,789.

During the period from January 1, 1981 through April 30, 1986, pursuant to the NCO Employee Profit Sharing Plan there were royalty payments as follows: Mr. Christensen — $36,894; Mr. Cook — $36,093; Mr. Miller — $12,649 and all employees other than Messrs. Christensen, Cook and Miller as a group — $67,276.

During the period from January 1, 1981 through April 30, 1986 pursuant to the Employee Production Incentive Plan, there were royalty payments as follows: Mr. Christensen — $6,218; Mr. Cook — $3,518; Mr. Miller — $2,167 and all employees other than Messrs. Christensen, Cook and Miller as a group — $31,246.

The following table shows as to Messrs. Lough, Christensen, Miller, Cook and Kurucz (i) the amount of options granted under NCO's employee stock option plan between January 1, 1981 and April 30, 1986 (ii) the net value realized from the exercise of options whenever granted during such period, and (iii) the amount of NCO common shares sold during such period by persons who exercised options.

	Lough	Christensen	Miller		Kurucz	All Officers as a Group
Granted — January 1, 1981 through April 30, 1986:						
Number of shares	11,250	11,250	10,144		4,375	37,019
Average per share exercise price	$19.79	$19.79	$10.95		$12.00	$ 16.45
	Lough	**Christensen**	**Miller**	**Cook**	**Kurucz**	
Exercised — January 1, 1981 through April 30, 1986:						
Net value realized (1)	$29,964	$31,185	$36,740	$25,125	$3,728	$126,742
Sales — January 1, 1981 through April 30, 1986:						
Number of shares	Nil	3,000	Nil	5,000	1,300	9,300

(1) Net value realized is market value less exercise price.

During the period January 1, 1981 through April 30, 1986 options to purchase 296,850 common shares were granted to employees of NCO other than officers and directors at an exercise price of $12.00 per share.

The option price was not less than 95% of the closing price on the TSE of NCO common shares on the date the option was granted. The options were not qualified or incentive options or options granted pursuant to an employee stock purchase plan as such term is defined in Sections 422 and 423 of the United States Internal Revenue Code. The weighted average option price per share was $17.93.

The following table sets forth certain information relative to options to purchase shares of NCO exercised since January 1, 1985.

Held by	Purchased Shares		Purchase Price	Trading Range (1)
	Class	Number		
W.K. Miller	common	4,500	$8.63	$11 - 12½

(1) Trading range is the low and high trading price of NCO common shares on the TSE in the 30 days preceding the date of the grant.

NCO Management Share Purchase Plan

At the 1984 Annual General Meeting of NCO the shareholders approved a management share purchase plan which currently provides for the issuance of up to 150,000 common shares of NCO upon exercise of rights to be granted to certain fulltime management employees of NCO or its affiliates. The exercise price under the NCO management share purchase plan is determined by the directors as a percentage of the trading value of NCO's common shares on the TSE. Rights may only be exercised in full. NCO is authorized under the NCO management share purchase plan to loan to the employees who are granted rights the amount of the exercise price under such terms and conditions as the directors may determine.

Pursuant to the provisions of the Amalgamation Agreement, by approving the Amalgamation Agreement the shareholders of NCO and Merland shall be considered to approve amendment of the NCO Management Share Purchase Plan to increase the maximum number of shares issuable under the plan from 150,000 to 300,000, and to approve the rights granted in excess of 150,000 to Messrs. Gish, Billing and Trickett.

The following table shows as to Messrs. Gish, Lough, Christensen, Billing, Trickett, Miller and Kurucz and as to all officers of NCO as a group, certain information with respect to the grant and exercise of rights during the period beginning January 1, 1983 and ending April 30, 1986:

	Gish	Lough	Christensen	Billing	Trickett	Miller	Kurucz	All Officers as a Group
Granted — January 1, 1983 through April 30, 1986:								
Number of shares	80,000	47,100	32,100	30,000	30,000	6,000	11,250	236,450
Average price per share exercise price	$ 11.92	$ 11.67	$ 11.67	$ 10.80	$ 10.80	$10.95	$10.95	$ 11.48
Exercised — January 1, 1983 to April 30, 1986:								
Number of shares	80,000	47,100	32,100	—	—	6,000	11,250	176,450
Net value realized (1)	$106,400	$28,359	$19,715	—	—	$3,458	$6,484	$164,416

(1) Net value realized is market value on the exercise date less exercise price.

The exercise price for the shares subject to the rights was not less than 90% of the closing price of the common shares of NCO on the TSE on the date of grant.

Indebtedness of NCO Officers and Directors

The following table sets forth certain details of the indebtedness of all officers and directors of NCO, or their associates, to NCO or any subsidiary during 1985 and at April 30, 1986.

Name	Maximum Indebtedness Since January 1, 1985	Amount Outstanding at April 30, 1986
Donald F. Christensen	$ 68,400	$ 68,400 (1)
Calgary, Alberta	374,580	374,580 (2)
Norman R. Gish	953,600	953,600 (2)
Calgary, Alberta		
Charles K. Lough	101,210	101,210 (1)
Calgary, Alberta	328,500	328,500 (2)
B.A. Kurucz	8,550	8,550 (1)
Calgary, Alberta	123,188	123,188 (2)
W. Keith Miller	21,375	60,210 (1)
Calgary, Alberta	65,700	65,700 (2)

(1) This indebtedness, which was incurred in connection with the purchase of common shares of NCO under the NCO Employee Stock Option Plan, is evidenced by promissory notes. Notes issued prior to 1979 are non interest bearing until maturity, after which they bear interest at 8%. Notes issued subsequent to 1978 bear annual interest equivalent to the annual dividends, if any, paid on the common shares acquired until the notes mature (which is the earlier of the date of termination as an employee, the date of sale of the common shares acquired, or ten years) after which the interest rate is 1% above the bank prime rate.

(2) This indebtedness was incurred in connection with the purchase of common shares of NCO under the NCO Management Share Purchase Plan, is evidenced by promissory notes which mature at the earlier of the date of termination as an employee or five years, and bear interest equivalent to the annual dividends, if any, paid on the common shares acquired.

Certain Transactions and Relationships

Marshall A. Jacobs, a director of NCO, is a member of the law firm of Jacobs Persinger & Parker and Ross A. MacKimmie, Q.C., a director of NCO, is counsel to the law firm of MacKimmie Matthews. Each of such firms has provided professional services to NCO since prior to January 1, 1985 and it is anticipated that each will provide professional services to Amalgamated NCO.

From time to time in 1985 a subsidiary of NCO purchased and sold preference shares issued by corporations which may be deemed to be affiliates of Hees. Such purchases were both from the issuers and from other corporations affiliated with Hees. Such purchases were at no commission to the subsidiary and at normal market terms. Also in 1985 certain preference shares issued by corporations which may be deemed to be affiliates of Hees were sold by the subsidiary at no gain or loss.

Since prior to January 1, 1985 NCO has had a $60,000,000 line of credit facility with each of CBOC and Hees and has had a $55,000,000 line of credit facility with Trilon Investments Corporation, an affiliate of Hees. Such facilities were established on normal market terms.

Management Agreement

NCO has approximately 225 employees. Neither Merland nor Bankeno has any employees. Pursuant to a Management and Technical Services and Cost Sharing Agreement made as of February 1, 1986 among NCO, Bankeno and Merland (the "Management Agreement"), NCO has agreed to manage the business and affairs of each of Bankeno and Merland. The Management Agreement is automatically renewed annually, unless any party gives proper notice of termination.

With respect to the payment of administrative and operating costs the Management Agreement provides:

(a) direct third party costs are paid by the party in respect of which such costs were incurred;

(b) costs incurred pursuant to any third party operating agreement are paid by the party which is subject to the agreement;

(c) all direct costs incurred in respect of investments made or held by any party are paid by such party;

(d) all direct costs incurred in respect of the Polaris Mine are paid by Bankeno;

(e) all direct costs incurred in respect of the Wabamun-Hinton pipeline are paid by NCO; and

(f) all other administrative and operating costs not otherwise allocated are paid by each party proportionately on the basis that the gross revenues plus capital expenditures for each such party bears to the aggregate of the gross revenues plus capital expenditures for all of the parties.

Capital costs are paid by the party which owns the business or property in respect of which the costs were incurred. Capital costs incurred in respect of any business or properties in which all the parties participate are borne in proportion to each party's respective ownership interests therein.

The Management Agreement also provides that the parties will jointly earn interests in lands in the same proportion that the annual capital expenditure budget of that party bears to the aggregate annual capital expenditure budgets of all parties.

Material Contracts

The only material contracts (other than contracts in the ordinary course of business) entered into by NCO since January 1, 1984 are the following:

1. Agreement dated September 28, 1984 whereby NCO acquired approximately 89.7% of the outstanding common shares of Bankeno from CIBC as described under "Acquisitions and Dispositions by NCO".
2. Service Agreement dated January 28, 1985 between NCO and Bankeno as described under "Bankeno — Management Arrangements With NCO".
3. Management and Technical Services and Cost Sharing Agreement among NCO, Bankeno and Merland governing the Management of Bankeno's and Merland's business and affairs by NCO, as described under "Management Agreement".
4. Distribution Agreement dated May 1, 1986 among NCO, Merland and Bankeno as described under "Distribution of Merland Common Shares to Holders of Bankeno Common Shares".
5. Amalgamation Agreement dated May 1, 1986 between NCO and Merland.

Management's Discussion and Analysis of Financial Conditions and Variations in Operating Results

The following discussion of results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements of NCO and related notes.

Capital Resources and Liquidity

NCO's working capital at December 31, 1985 was $240,008,000 up from $178,541,000 at December 31, 1984 and higher than the December 31, 1983 working capital of $135,400,000. Working capital was $217,258,000 at March 31, 1986 reflecting higher winter drilling activity and expenditures.

NCO had long-term debt outstanding of $327,622,000 at December 31, 1985 with total unsecured lines of credit available of $365,000,000 of which $207,105,000 were drawn. Long-term debt outstanding at March 31, 1986 amounted to $310,091,000. During 1985, the $21,460,000 principal amount of floating rate debentures were converted into common shares. As well in 1985, NCO issued $50,000,000 of 8% convertible debentures maturing on September 30, 1996 which have a deferred interest feature whereby no interest is payable until December 31, 1986 and is only payable if the debentures have not been converted into preferred shares of NCO by that date.

Dividend payments increased to $9,881,000 in 1985 from $4,458,000 in 1984 due to the issue in July 1984 of 2,000,000 Class A Series 1 Shares and in September 1984 of 2,158,881 NCO Class B Series 3 Shares as part of the consideration paid for the acquisition of Bankeno.

Capital expenditures increased to $51,474,000 during 1985 from $39,499,000 in 1984, and up from the 1983 total of $16,490,000. Capital expenditures for the first quarter of 1986 were $13,350,000. The capital expenditure programs have been funded through cash flow from operations for each year.

Capital expenditures for 1986 are currently estimated at $50,000,000 and are being reviewed in light of the recent declines in oil prices and the deregulation of natural gas markets. The capital expenditure program will be funded by cash flow from operations and proceeds from NCO's marketable investment portfolio.

Interim Results of Operations for the quarter ended March 31, 1986 and 1985

Natural gas and crude oil revenue (net of royalties) was $30,440,000 for the quarter as compared to $30,074,000 in 1985. Gas production averaged 154 mmcf/d for 1986 as compared to 151 mmcf/d in 1985. Oil and natural gas liquids production increased to 2,579 bopd, up from 1,591 bopd in 1985 mainly due to production from new discoveries made in Saskatchewan and Northwestern Alberta. Oil revenues do not reflect a corresponding increase due to the reduction in oil prices in early 1986. Investment and other income rose 6% to $6,605,000 in 1986 as compared to $6,206,000 in 1985.

Operating expenses for 1986 totalled $4,740,000 compared to $4,839,000 for 1985. A downward revision of proven oil and gas reserves as well as an increase of future capital expenditure estimates resulted in the increase in depreciation and depletion to $9,165,000 for the first quarter of 1986. The $4,906,000 for the first quarter of 1985 does not reflect these changes as they were recorded in December 1985 for the full year 1985.

Interest and other expenses were $9,300,000 as compared to $8,298,000. This increase is the result of interest on a higher average debt level in 1986 versus 1985.

Income and resource taxes amounted to $4,387,000 as compared to $7,271,000 in 1985. This decrease is due to the reduction in the petroleum and gas revenue tax rate, reduced deferred tax provision, and an increase in the Alberta Royalty Tax Credit available.

Results of Operations 1985 and 1984

NCO's results of operations for the year ended December 31, 1985 include the results of Bankeno and Merland for the full year, while the 1984 results include Bankeno and Merland for only the last quarter of 1984.

Natural gas and crude oil revenue (net of royalties) was $113,980,000 compared to $56,967,000 in 1984 and was mainly attributable to the inclusion of Bankeno and Merland for the full 1985 year. On a consolidated basis, production increased to 133 mmcf/d for natural gas and 2,049 bopd for crude oil and natural gas liquids as compared to 72 mmcf/d and 808 bopd respectively for 1984. NCO's Wabamun-Hinton pipeline and gas marketing revenue increased 22% to $9,757,000 due to increased marketing activities in Alberta. Investment and other income rose $10,343,000 to $25,820,000 as a result of the increase in investments and notes receivable.

Operating expenses of $22,514,000 as compared to $10,259,000 increased as a result of additional wells coming on production and continuing maintenance programs and the inclusion of Bankeno and Merland for the full 1985 year. The increase in depreciation and depletion over 1984 is the result of the increase in the consolidated asset base, downward revision of proven oil and gas reserves and an increase of future capital expenditure estimates.

Interest expense increased to $32,708,000 due to the inclusion of Bankeno and Merland for the full 1985 year and increased long-term debt to finance the capital expenditure and investment programs.

Income and resource taxes amounted to $18,617,000 an increase of $8,036,000 which reflects the inclusion of Bankeno and Merland for the full 1985 year.

Results of Operations 1984 to 1983

NCO's results of operations for the year ended December 31, 1984 include the results of Bankeno and Merland for the fourth quarter, while the 1983 results do not include Bankeno and Merland.

Natural gas and crude oil revenue (net of royalties) was $56,967,000 as compared to $32,626,000 in 1983. Of the increase, $19,800,000 is attributable to Bankeno and Merland. The balance of $4,600,000 is related to an increase in natural gas production which averaged 51 mmcf/d up from 48 mmcf/d in 1983 and a 15.5% increase in crude oil production from 416 bopd in 1983 to 481 bopd in 1984. Revenue generated by NCO's Wabamun-Hinton pipeline and gas marketing activity was $8,005,000, an increase of 22% over the $6,577,000 during fiscal 1983. This gain is attributable to an improved tariff structure on pipeline volume throughout and on sales to industrial clients. Investment and other income earned on short-term investments was $15,477,000 a substantial increase over the $7,538,000 earned in 1983.

Operating expenses for the year were $10,259,000 including $4,500,000 related to Bankeno and Merland properties. The increase in expenses was due largely to an extensive modification and maintenance program completed on the production facilities and costs related to wells placed on production during 1984.

Administrative and interest expenses were higher than in 1983 and include Bankeno and Merland costs from the date of acquisition and additional interest costs related to investment loans.

Income and resource taxes totalled $10,581,000, approximately 30% of pre-tax income down from 33% in 1983. This reduction is due partially to increased capital expenditures during 1984 and additional interest expense. The acquisition of Bankeno and Merland resulted in the increased provision for depreciation and depletion.

Legal Proceedings Involving NCO

Legal proceedings have been commenced against NCO and several other defendants by certain minority shareholders of Bankeno in respect of the issue of certain Bankeno common shares which were subsequently acquired by NCO. See "Legal Proceedings Involving Bankeno".

Acquisitions and Dispositions by NCO

On September 28, 1984 NCO purchased 89.7% of the outstanding common shares of Bankeno and 84.4% of the outstanding warrants to purchase common shares of Bankeno pursuant to an agreement with CIBC, Turbo and certain of Turbo's subsidiaries. The aggregate consideration for the shares and warrants paid by NCO to CIBC was $65,000,000, which was paid by a promissory note bearing interest at the rate of 10% per annum repayable in ten years and the issue of 2,000,000 NCO Class B Series 3 Shares. This consideration was the equivalent of $2.47 principal amount of indebtedness and 0.0759 of a NCO Class B Series 3 Share for each Bankeno common share and $0.21 principal amount of indebtedness and 0.0063 of a NCO Class B Series 3 Share for each warrant.

On October 1, 1984 NCO offered to purchase from the other Bankeno shareholders, for the same consideration, Bankeno common shares, warrants to purchase Bankeno common shares, and units consisting of 1.4 Bankeno common shares and one warrant. Such offer terminated on December 17, 1984. Pursuant to such offer, NCO purchased an additional 6.9% and 6.8%, respectively, of the outstanding common shares and

warrants of Bankeno for an aggregate consideration of $5,143,300 principal amount of indebtedness and 158,881 NCO Class B Series 3 Shares. On March 17, 1986 the warrants to purchase common shares of Bankeno expired without being exercised.

Effective December 19, 1985 NCO disposed of 2,800,000 common shares of Bankeno for aggregate proceeds of $13,888,000. As of April 30, 1986, NCO owned 86.6% of the outstanding common shares of Bankeno.

Auditors

The auditors of NCO are Touche Ross & Co., Calgary, Alberta. The auditors of NCO for the fiscal years ended December 31, 1981 and 1982 were Peat, Marwick, Mitchell & Co., Calgary, Alberta.

Registrar and Transfer Agent

The registrar and transfer agent in Canada for the NCO common shares, the NCO 5½% Preferred Shares and the NCO Class B Series 3 Shares is The Royal Trust Company at its principal offices in the cities of Calgary, Montreal and Toronto. In the United States The Bank of Nova Scotia Trust Company of New York at its principal office in New York is the registered transfer agent for the NCO common shares.

General Matters

For a description of certain general matters affecting NCO, such as "Industry Regulation" and "Competition" see "GENERAL MATTERS".

BANKENO MINES LIMITED

Corporate Structure

Bankeno was incorporated under the laws of Ontario in 1944 and continued under the laws of Alberta on January 30, 1979. Its principal office is located at 700, 112 - 4th Avenue S.W., Calgary, Alberta.

Business of Bankeno

This section describes the business of Bankeno exclusive of the assets of Merland unless otherwise indicated. See "Merland Explorations Limited" for a description of the business and assets of Merland.

Natural Gas

Bankeno's natural gas production in Canada is contracted to four major purchasers: Pan-Alberta, TransCanada, Progas Limited and KannGaz. The majority of Bankeno's gas is contracted to Pan-Alberta, which exports the gas to the United States. The term of the contract with Pan-Alberta runs until 1996 and is contingent upon further regulatory export authorizations.

Revenues to Bankeno in 1985 from natural gas production aggregated $3,712,000 and accounted for approximately 50% of Bankeno's gas and oil revenues.

The following table shows revenues (after royalties) derived by Bankeno from the sale of natural gas, production (before royalties), average price (before royalties) received for gas sold, and average lifting costs for the periods indicated.

	Three months ended March 31	Year ended December 31			
	1986	1985	1984	1983	1982
Production (mmcf)	321	1,686	1,269	1,300	800
Revenues ($,000)	598	3,712	3,052	2,726	2,066
Average price ($/mcf)	2.66	2.65	3.03	2.47	3.17
Average lifting costs ($/mcf)	0.47	0.46	0.36	0.97	0.64

Bankeno had no natural gas production prior to 1982.

Crude Oil

In 1985, production of crude oil and natural gas liquids totalled 143,000 barrels, a decrease of 6% from 1984. Revenues to Bankeno from oil and natural gas liquids aggregated approximately $3,779,000 in 1985 and accounted for approximately 50% of Bankeno's gas and oil revenues.

The following table shows revenues to Bankeno (after royalties) derived from the sale of crude oil and natural gas liquids, total production (before royalties), average price (before royalties) received for oil sold, and average lifting costs for the periods indicated.

	Three months ended March 31	Year ended December 31			
	1986	1985	1984	1983	1982
Production (bbls)	32,000	143,000	152,000	183,000	88,000
Revenues ($,000's)	1,022	3,779	4,184	3,592	1,974
Average price ($/bbl)	36.81	34.44	36.10	24.60	27.60
Average lifting costs ($/bbl)	3.37	5.63	4.36	4.49	5.74

Bankeno had no oil production prior to 1982.

Oil and Gas Wells

The following table summarizes Bankeno's interests as at December 31, 1985 in oil and gas wells, all of which are located in Alberta and which are producing or which Bankeno considers to be capable of production. All wells that are not producing are shut-in gas wells which are within 25 miles of transmission facilities.

	Wells	
	Gross	Net
Gas	61	14
Oil	98	19
	159	33

As at December 31, 1985 Bankeno had 100,606 gross (17,575 net) developed acres.

Petroleum and Natural Gas Reserves of Bankeno

D&S has conducted an independent evaluation of Bankeno's petroleum and natural gas reserves as at December 31, 1985 in the D&S Bankeno Report. The D&S Bankeno Report is available for inspection at the principal office of Bankeno, 700, 112 - 4th Avenue, S.W., Calgary, Alberta during normal business hours until June 24, 1986.

The results of the D&S Bankeno Report are summarized in the following tables. The pertinent assumptions and qualifications relating to prices, costs, technical matters and regulatory interpretation are discussed in detail in the D&S Bankeno Report. It should also be noted that all future net production revenues as set forth in the following tables are stated prior to provisions for income taxes and any indirect costs.

Bankeno does not represent that a particular discounted future net production revenue as determined by D&S quantifies the fair market value of the reserves.

	Gross Reserves (1)		Net Reserves (1)	
	Oil & NGLs (Mbbls)	Natural Gas (bcf)	Oil & NGLs (Mbbls)	Natural Gas (bcf)
Proved				
Developed producing (2)	1006.9	11.7	845.4	9.4
Developed non producing (2)	60.2	22.6	43.7	18.6
Undeveloped (2)	—	1.8	—	1.2
Total proved	1067.1	36.1	889.1	29.2
Probable additional (3)	320.5	19.2	247.0	15.9
Total proved & probable	1387.6	55.3	1136.2	45.1

Present worth of future net production revenue (5) based on escalating price assumptions (4), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	56,492	25,256	20,039	16,732
Developed non producing	75,171	18,877	11,753	7,897
Undeveloped	1,537	406	98	(54)
Total proved	133,200	44,539	31,890	24,575
Probable additional	69,345	17,526	10,573	6,792
Total proved & probable	202,545	62,065	42,463	31,367
PGRT credit (6)	1,323	1,163	1,097	1,038
ARTC (7)	29,093	9,892	7,131	5,526
Total	232,961	73,119	50,690	37,931

Present worth of future net production revenue (5) based on constant price assumptions (8), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	35,400	20,332	17,065	14,793
Developed non producing	31,250	10,103	6,807	4,855
Undeveloped	533	3	(111)	(160)
Total proved	67,183	30,438	23,761	19,488
Probable additional	29,682	9,207	5,889	3,933
Total proved & probable	96,865	39,645	29,650	23,421
PGRT credit (6)	1,326	1,165	1,099	1,041
ARTC (7)	14,647	6,744	5,296	4,363
Total	112,837	47,555	36,045	28,824

The notes for the D & S Bankeno Report are identical to those set forth for the D & S NCO Report. See "Petroleum and Natural Gas Reserves of NCO".

Additional Information:

The D & S Bankeno Report includes estimates of future net capital expenditures which are required to recover Bankeno's share of the oil and gas reserves. These capital expenditures for 1986, 1987 and in total over the estimated recovery period for the reserves can be summarized as follows:

Reserve Category	1986	1987	Total
		($,000)	
Proved			
Producing	66	2	70
Non producing	15	378	1,397
Undeveloped	—	—	1,218
Total proved	81	380	2,685
Probable additional	556	496	3,054
Total proved & probable	637	876	5,739

The above figures are expressed in constant 1986 dollars. Bankeno presently anticipates incurring these capital costs as indicated in such periods.

Approximately 32% of the proved gas reserves and 94% of the proved oil reserves are currently on production as indicated by the D & S Bankeno Report.

The extent and character of ownership and all factual data pertaining to Bankeno's petroleum and natural gas properties and contracts (except for certain information residing in the public domain) were supplied to D & S by Bankeno. D & S accepted this data as presented and neither title searches nor field inspections were considered necessary by D & S. The D & S Bankeno Report was completed in accordance with generally accepted evaluation principles and the D & S opinion of standard oil industry practices.

No major discovery or other favourable or adverse event that is believed to have caused a significant change in Bankeno's proved reserves has occurred since December 31, 1985.

Since January 1, 1985, Bankeno has not filed any proved gas or oil reserve estimates with, or included such estimates in reports to, any governmental agency other than the SEC.

For additional information concerning Bankeno's reserves see "Supplemental Information to Consolidated Financial Statements of Bankeno".

Capital Expenditures

The following table shows capital expenditures by Bankeno for property acquisition, oil and gas exploration and development for the periods indicated. Bankeno had no capital expenditures prior to 1982.

	Three Months ended March 31	Year ended December 31			
	1986	1985	1984	1983	1982
		($,000)			
Property acquisition	8,236	(16)	1,398	161	(1,013)
Exploration	—	924	323	320	1,585
Development	81	1,507	1,055	48	2,607
Other	—	—	65	—	—
Total	8,317	2,315	2,841	529	3,179

Undeveloped Land Holdings of Bankeno

The undeveloped land holdings of Bankeno as at December 31, 1985 are set forth in the following table. Fair market value has been estimated by D & S in the D & S Bankeno Report.

	Acres		Fair Market Value
	Gross	Net	
Alberta	308,575	61,498	$4,438,080
British Columbia	50,058	7,548	1,323,050
Total	358,633	69,046	$5,761,130

Drilling Activity

The following table sets forth the number of gross and net exploratory and development wells in which Bankeno has participated in drilling in lands for the periods indicated.

	Three Months ended March 31		Year ended December 31							
	1986		1985		1984		1983		1982	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory										
Producing (1)	4	.3	6	1.5	1	.2	8	1.9	6	1.6
Dry	0	0	1	.2	1	.4	2	.7	3	.5
	4	.3	7	1.7	2	.6	10	2.6	9	2.1
Development										
Producing (1)	3	0	11	1.6	10	2.8	14	2.2	6	1.5
Dry	2	.3	4	.3	1	.5	—	—	—	—
	5	.3	15	1.9	11	3.3	14	2.2	6	1.5
Total	9	.6	22	3.6	13	3.9	24	4.8	15	3.6

(1) Or capable of production although currently shut-in.

Bankeno drilled no wells in April, 1986.

Interest of Bankeno in Polaris Mine

Bankeno owns a 25% royalty interest in the total net proceeds from the Polaris Mine, a lead-zinc mine located on Little Cornwallis Island in the Canadian Arctic. The Polaris Mine was developed and is operated by Cominco Ltd., and is a significant world producer of lead-zinc. The cost of developing the mine, the initial start-up costs, and the operating costs, net of sales, together with interest incurred on those amounts, totalled approximately $250,000,000 at the end of 1985. These costs must be recouped before any payment will be made under Bankeno's royalty interest.

Wright Engineers Limited, independent mining consultants of Vancouver, British Columbia, in a report addressed to Bankeno and dated January 16, 1986 evaluated Bankeno's 25% royalty interest in the Polaris Mine as at December 31, 1985. The following information is summarized from the Wright Report.

The pertinent assumptions and qualifications relating to prices, costs, technical matters and regulatory interpretation are discussed in detail in the Wright Report.

Indicated Ore (1) (3)			Inferred Ore (2) (3)		
Tons	% Lead	% Zinc	Tons	% Lead	% Zinc
21,635,000	3.7	14.2	3,671,000	2.5	12.1

(1) Indicated ore reserve amount is as at August 31, 1985. Indicated ore is outlined by detailed surface and underground diamond drilling on 25 metre interval cross sections.

(2) Inferred ore reserve amount is as at November 1, 1985. Inferred ore is inferred by wide and irregular spaced surface diamond drilling on projected extensions of the ore body.

(3) Ore reserve estimates are based on cut off grade of 8% combined lead and zinc over a minimum mining thickness of 5 metres, and tonnages are diluted by 15% by weight with material grading 0.6% lead and 3.3% zinc.

Bankeno does not represent that a particular discounted future net production revenue as determined by Wright quantifies the fair market value of the reserves. It should also be noted that all future net production revenues as set forth in the following tables are stated after provision for income taxes and prior to any indirect costs.

Present worth of future net production revenue based on escalated price assumptions discounted at:

	7½%	10%	12½%	15%
		($,000,000)		
Base case metal prices (1)	75.0	55.8	42.0	32.1
Metal prices 10% higher (2)	103.5	78.6	60.5	47.3
Metal prices 10% lower (2)	45.6	32.7	23.7	17.4

(1) Prices used in the Wright Report, as set forth below, have been adjusted for inflation and are expressed in U.S. cents per pound.

	1986	1987 and beyond
Lead	18	20
Zinc	40	45

(2) Metal prices were varied with cases showing 10% higher and 10% lower to provide a sensitivity on the ultimate present worth of future net production revenue.

(3) Assumes a production rate of 1,000,000 tonnes per year for 19.5 years.

(4) Assumes operating costs of $42.00 per tonne milled in 1986, escalated annually for inflation at 5%.

(5) Assumes capital costs of $400,000 in 1986 and $4,700,000 in 1987.

(6) The Wright Report uses treatment charges and prices expressed in U.S. dollars, which have been converted on the basis of one U.S. dollar equals 1.40 Canadian dollars.

The shippable production from Polaris is sold on a contractual basis to smelters located in Europe.

Interest of Bankeno in 142433 Canada Ltd.

Bankeno owns all of the issued and outstanding common shares of 142433 Canada Ltd., which represent approximately 30% of the voting rights of that corporation, which investment is valued at cost of $5,069,100. 142433 Canada Ltd. owns 56,030 Merland Preferred Series A Shares and 606,734 Merland Preferred Series B Shares.

Interest of Bankeno in Panarctic

Bankeno owns 933,372 common shares of Panarctic, representing a 1.37% interest. Panarctic, is an industry/government consortium, which is more than 50% owned by the Government of Canada through Petro-Canada Explorations, Inc., with the remainder of the shares held by 36 corporate or individual shareholders, most of whom are Canadian. Panarctic explores for oil and natural gas in the Canadian Arctic islands.

Selected Financial Information and Per Share Data of Bankeno

The following table summarizes certain selected financial and per share data in accordance with generally accepted accounting principles in Canada and is qualified by the more detailed "Consolidated Financial Statements of Bankeno" and "Pro Forma Financial Information and Per Share Data of Bankeno".

	Three Months Ended March 31		Year ended December 31				
	1986	1985	1985	1984 (3)	1983 (3)	1982 (3)	1981
	(unaudited)		($,000 except per share data)				
Financial Data (1)							
Revenues	18,355	19,586	69,174	69,881	63,321	51,440	— (2)
Net earnings (loss)	485	1,400	(629)	2,049	(161,252)	(713)	— (2)
Total assets (at end of period)	331,418	327,421	329,601	326,925	319,915	494,848	11,403
Long-term debt (at end of period)	88,636	102,632	94,290	105,609	95,677	103,684	3,000
Per Common Share Data (1)							
Net earnings (loss) per common share	.02	.05	(.02)	(.07)	(5.72)	(.03) (3)	— (2)
Cash dividend per common share	—	—	—	—	—	—	—
Book value per common share	3.10		3.08				
Pro forma earnings per common share (5)	.01		.03				
Pro forma book value per common share (excluding 100% of Merland) (5)	1.61		1.60				

(1) The financial and per common share data includes the assets, liabilities and operations of Bankeno's 53% interest in Merland effective March 17, 1982.

(2) No statement of earnings was prepared for the year ended December 31, 1981 as under the accounting policies of Bankeno no revenue or expenses were realized in this year.

(3) Restated retroactively as described in the Consolidated Financial Statements of Bankeno.

(4) As set out in Note 13 of the Consolidated Financial Statements of Bankeno, under United States accounting principles the earnings (loss) would be adjusted to the following: March 31, 1986 — $186; March 31, 1985 — $1,015; 1985 — $(1,216); 1984 — $(1,238); 1983 — $(111,101); 1982 — $(51,769); 1981 — $1,099. The earnings (loss) per common share would be $0.01, $0.04, $(0.04), $(0.04), $(3.91), $(2.23) and $0.27 respectively.

(5) Based on "Pro Forma Financial Information and Per Share Data of Bankeno".

Consolidated Capitalization of Bankeno

	Authorized Shares	Outstanding March 31, 1985		Outstanding April 30, 1986	
		Shares	Amount	Shares	Amount
			($,000)		($,000)
Long term debt (1)					
Bank loans (2)			38,355		50,617
Loans from affiliates (3)			36,500		19,200
Income debentures (4)			16,380		16,290
Mining loans (5)			4,474		4,474
			95,709		90,581
Deferred revenue			25,035		25,035 (6)
Deferred income and resource taxes			37,459		37,459 (6)
Minority interest			57,971		57,971 (6)
Shareholders' equity					
Common shares	100,000,000	28,270,721	244,999	28,270,271	244,999
Deficit			(157,362)		(157,362)(6)
			87,637		87,637
Total capitalization			303,811		298,683

(1) Includes the debt of Merland.

(2) Pursuant to an $82,000,000 unsecured revolving demand credit facility to Merland with a Canadian chartered bank which bears interest at prevailing bank prime rate.

(3) Pursuant to a $60,000,000 revolving demand credit facility to Bankeno which bears interest at prevailing bank prime rate and is secured by a pledge of 11,204,974 common shares of Merland and 56,030 Merland Preferred Series A Shares.

(4) Income debentures are secured by assignments of certain Merland oil and gas properties under section 177 of the Bank Act. Principal is payable in quarterly installments with a final maturity date of June 30, 1988. Interest is at one half of prime plus 1⅛%.

(5) The mining loan bears interest at prevailing bank prime rate and is repayable from proceeds of a royalty interest in the Polaris Mine.

(6) Amounts are as at March 31, 1986.

Description of Share Capital of Bankeno

The following is a summary of certain attributes of the share capital of Bankeno.

Common Shares

There are 100,000,000 common shares authorized, of which 28,270,271 are currently issued and outstanding. The common shares rank junior to the first preferred shares. Holders of common shares are entitled to one vote per share at meetings of shareholders, to receive any dividend declared by Bankeno on this class of shares, and to receive the remaining property of Bankeno upon dissolution, but subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of Bankeno.

First Preferred Shares

There are 50,000,000 First Preferred Shares authorized, which are issuable in series. No series has yet been designated nor have any of these shares been issued. Each series ranks on a parity with every other series unless the resolution of the directors establishing any particular series expressly provides that such series is to be subordinate in any respect to any prior series.

Dividend Record of Bankeno

To date, Bankeno's policy has been not to pay dividends on its common shares, but rather to reinvest its earnings in its business activities. This policy is periodically reviewed by the board of directors.

Price Range and Trading Volume of Bankeno Common Shares

The common shares of Bankeno are listed and traded on the TSE. The following table sets out the high and low prices and trading volumes of the common shares as reported by such exchange for the periods indicated.

	Price		
	High	Low	Volume
1984			
First Quarter	$3.80	$2.61	144,867
Second Quarter	3.80	2.66	158,217
Third Quarter	4.00	3.20	113,923
Fourth Quarter	3.90	3.25	1,056,646
1985			
First Quarter	3.65	3.50	32,490
Second Quarter	3.75	3.30	81,145
Third Quarter	3.50	3.35	76,261
Fourth Quarter	3.40	2.50	38,100
1986			
January	2.75	2.55	11,900
February	2.65	2.40	7,996
March	2.25	2.10	250
April	1.70	1.30	480

On April 30, 1986 the closing price of the common shares as reported by the TSE was $1.30.

Bankeno Directors

The following table sets forth certain information with respect to the persons who are the directors of Bankeno. Except for Mr. Gish, who was appointed a director on December 18, 1985, all of the directors were elected by the shareholders of Bankeno at the annual general meeting of shareholders held on May 23, 1985 and have served continuously since the year first elected. The board of directors does not have an executive committee.

Name and Residence	Principal Occupation for the Past Five Years and Management Position, if any, with Bankeno	Year First Elected as Director	Age	Number of Bankeno Common Shares Owned
Donald F. Christensen Calgary, Alberta	(3)	1985	58	Nil
Douglas A. Cox Edmonton, Alberta	President and Chief Executive Officer, Branjeff Holdings Ltd. (investment company)	1984	48	Nil
Norman R. Gish Calgary, Alberta	(2)	1985	50	Nil
Frederick H. Hemming (4) Calgary, Alberta	President, Bankton & Associates Management Consultants Ltd.	1983	66	Nil
David W. Kerr (1)(4) Toronto, Ontario	(2)	1984	42	10,000
Willard J. L'Heureux, Q.C. Toronto, Ontario	(2)	1984	38	Nil
Charles K. Lough (4) Calgary, Alberta	(3)	1985	58	Nil

(1) Chairman of the Board.

(2) These directors will also be directors of Amalgamated NCO. For a description of their principal occupations for the last five years and their management position, if any, with Bankeno, see "Directors of Amalgamated NCO".

(3) These directors are also directors of NCO. For a description of their principal occupations for the last five years see "NCO Directors" and for a description of their management position with Bankeno, see "Executive Officers of Bankeno".

(4) Member of the audit committee.

Executive Officers of Bankeno

The following persons are the executive officers of Bankeno.

Grant D. Billing is the Vice-President Finance and Administration and the Corporate Secretary.

Donald F. Christensen is the Vice-President Exploration and Land.

Norman R. Gish is the President and Chief Executive Officer.

Charles Lough is the Vice-President Corporate Development.

William A. Trickett is the Vice-President Operations.

These individuals will be employed as officers by Amalgamated NCO. For a description of their experience and expertise see "Executive Officers of Amalgamated NCO".

Remuneration of Directors and Officers of Bankeno

No remuneration was paid during 1985 to any officers of Bankeno (in that capacity). Aggregate fees of $15,500 were paid to directors who were not officers of Bankeno or its affiliates for serving as members of the board of directors of Bankeno and committees of the board. These directors are entitled to $3,000 annually plus $250 per meeting attended. Members of the audit committee were paid $250 per meeting of the committee attended.

Management Arrangements with NCO

Pursuant to a Service Agreement made as of January 28, 1985, between Bankeno and NCO, the business and affairs of Bankeno, which has no employees, were managed by NCO until January 31, 1986 when the Service Agreement was terminated and replaced with the Management Agreement. The Service Agreement provided for a fee of $50,000 per month to be paid by Bankeno to NCO, as well as reimbursement of NCO's costs and expenses, in consideration of NCO, through its employees, providing management services to Bankeno. To January 31, 1986, Bankeno paid NCO aggregate fees of $600,000 under the Service Agreement.

Effective February 1, 1986 NCO commenced managing the business and affairs of Bankeno and Merland pursuant to the Management Agreement. See "North Canadian Oils Limited — Management Agreement".

Hees and the directors and senior officers of NCO and Hees are insiders of NCO. To the knowledge of the directors and officers of Bankeno and other than as described herein, none of NCO, its directors or officers or the persons or corporations mentioned above, and their associates or affiliates, is or has been at any time since January 1st, 1985, indebted to Bankeno, or has been a party to any transaction or arrangement with Bankeno except NCO, pursuant to the Service Agreement made as of January 28, 1985 and the Management Agreement dated February 1, 1986.

Principal Holders of Securities

To the knowledge of the management of Bankeno, the only person or company which beneficially owns, directly or indirectly, more than 5% of any class of shares of Bankeno as at April 30, 1986 is NCO, which directly owns 24,476,880 (86.6%) of the Bankeno common shares.

Material Contracts

The only material contracts (other than contracts in the ordinary course of business) entered into by Bankeno since January 1, 1984 are the following:

1. Service Agreement made as of January 28, 1985 between Bankeno and NCO as described under "Management Arrangements with NCO".
2. Management Agreement dated February 1, 1986 among NCO, Bankeno and Merland as described under "North Canadian Oils Limited — Management Agreement".
3. Distribution Agreement dated May 1, 1986 among NCO, Merland and Bankeno as described under "Distribution of Merland Common Shares to Holders of Bankeno Common Shares".

Management's Discussion and Analysis of Financial Condition and Variations in Operating Results

The following discussion of results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements of Bankeno and related notes.

Capital Resources and Liquidity

Bankeno's working capital deficit at December 31, 1985 was $12,373,000, an improvement from a deficit of $16,291,000 at December 31, 1984 and $23,200,000 at December 31, 1983. The working capital deficit at March 31, 1986 was $16,603,000 reflecting higher winter drilling activity.

At December 31, 1985, the unsecured lines of credit were $160,000,000 of which $94,300,000 were drawn. At December 31, 1985 and 1984, long-term debt was $100,991,000 and $110,728,000, respectively. The long-term debt bears interest at rates approximating the Canadian bank prime rate with no fixed repayment terms.

Capital expenditures, after deducting petroleum incentive payments, were $6,296,000 for the three months ended March 31, 1986 and $25,916,000, $29,696,000, and $25,875,000 for the years ending December 31, 1985, 1984 and 1983 respectively. The capital expenditure programs were funded through cash flow from operations for all three years.

Capital expenditures for 1986 are currently estimated at $25,000,000 and are being reviewed to ensure that projected cash flow from operations, under the current environment of declining prices for oil and the deregulation of gas markets in Canada on November 1, 1986, are sufficient to cover all capital expenditures.

Interim Results of Operations for the quarters ended March 31, 1986 and 1985

Natural gas and crude oil revenue (net of royalties) for 1986 were $18,355,000 as compared to $19,586,000 in 1985. Daily gas production averaged 88 mmcf/d, down 4 mmcf/d from 1985. Oil production totalled 1,590 bopd, up 521 bopd from 1985 due to new discoveries in Saskatchewan. Operating expenses for 1986 were $3,033,000, a reduction of $161,000 from 1985.

Administrative expenses were down $158,000 to $1,282,000 due to a reduction in staff, and interest expense has decreased by $196,000 to $2,698,000 resulting from reduced interest rates and long-term debt. Income and resource taxes totalled $2,996,000 as compared to $3,620,000 in 1985. This reduction is mainly attributable to the reduction in the Petroleum and Gas Revenue Tax.

Results of Operations 1985 and 1984

Revenues, net of royalties, for 1985 were $69,174,000 as compared to $69,881,000 in 1984. Daily gas production was unchanged from 77 mmcf/d and oil production increased 18% to 1377 bopd.

Operating expenses for 1985 were $15,120,000, an increase of $2,650,000. This increase is due to additional wells coming onto production and the increasing costs associated with fields that have been producing for a considerable length of time.

Administrative expenses were down due to a decrease in the number of employees and related reductions in benefits. Interest expense was down $1,979,000 because of lower rates and reduced long-term debt.

Income and resource taxes increased to $11,508,000 up from $8,888,000 in 1984. The majority of the change was due to an increased deferred income tax provision.

Results of Operations 1984 and 1983

Oil and gas revenues, after royalties, were $69,881,000 in 1984 as compared to $63,321,000 in 1983. The increase was due to gas production averaging 76.8 mmcf/d up from 72.6 mmcf/d in 1984. Oil production increased to 1,173 bopd in 1984 from 1,156 bopd in 1983.

Depreciation and depletion was $21,510,000, down from $30,284,000 in 1983, mainly due to the reduction in the asset base resulting from the provision for impairment of property, plant and equipment recorded in 1983.

Income and resource taxes increased from 1983 due to the increase in the rate of PGRT and also the reduction in the amount of Alberta Royalty Tax Credit.

Legal Proceedings

By Statement of Claim issued out of the Court of Queen's Bench of Alberta in July 28, 1983, as amended, certain minority shareholders of Bankeno have commenced legal proceedings against Bankeno, NCO and others. The plaintiffs allege that an aggregate of 22,441,693 Bankeno common shares, plus warrants and options to purchase additional Bankeno common shares, were improperly issued by Bankeno to Turbo pursuant to the acquisition by Bankeno from Turbo of Merland and two other Turbo subsidiaries. The plaintiffs allege that the value of the Bankeno common shares issued to Turbo exceeded the fair value of the assets acquired by Bankeno from Turbo and resulted in a dilution and decreased value of their interest in Bankeno. The plaintiffs further allege that NCO acquired the Bankeno shares from Turbo with full knowledge of the plaintiffs' claim. Among other things, the plaintiffs have claimed for an Order cancelling the issue of the Bankeno common shares to Turbo, declaring that the acquisition of such shares by NCO from Turbo be set aside, and damages of $5,000,000 against NCO for conversion to its own use of the Bankeno common shares acquired from Turbo. Statements of Defence have been filed and settlement negotiations are ongoing.

Acquisitions and Dispositions

Effective March 1, 1986 Bankeno acquired from Merland certain interests in oil and gas properties in the Birch-Wavy area of Alberta for a cash consideration of $8,236,000, which was based on independently appraised value. This acquisition will enhance the operating results of Bankeno by expanding its production base for deliveries under a TransCanada gas contract.

On May 8, 1986 Bankeno acquired all of the issued and outstanding common shares of 142433 Canada Ltd., which represent approximately 30% of the voting rights of that corporation, for an aggregate acquisition cost of $5,069,100. Effective May 8, 1986 Bankeno disposed of 56,030 Merland Preferred Series A Shares and 606,734 Merland Preferred Series B Shares to 142433 Canada Ltd. for an aggregate consideration of $15,569,000. The net proceeds of $11,500,000 were used to decrease long term debt of Bankeno.

Auditors

The auditors of Bankeno are Touche Ross & Co., Calgary, Alberta. The auditors of Bankeno for the fiscal years ended December 31, 1981, 1982, 1983 and 1984 were Deloitte Haskins & Sells, Calgary, Alberta.

Registrar and Transfer Agent

The registrar and transfer agent for the common shares of Bankeno is Royal Trust Corporation of Canada at its principal offices in the cities of Calgary and Toronto.

General Matters

For a description of certain general matters affecting Bankeno, such as "Industry Regulation" and "Competition" see "GENERAL MATTERS".

MERLAND EXPLORATIONS LIMITED

Corporate Structure

Merland Explorations Limited was incorporated under the laws of Canada by letters patent on May 8, 1926 and was continued under the CBCA on June 9, 1980. The registered and principal office of Merland is located at 700, 112 - 4th Avenue, S.W., Calgary, Alberta, Canada. Merland has two wholly-owned subsidiaries, Merland Resources, Inc. (a Montana corporation) and Merland Oil & Gas, Inc. (a Texas corporation), both of which are inactive.

Business of Merland

Merland is engaged in the exploration for, and in the development and production of, crude oil and natural gas in Western Canada. Merland's principal areas of activity are presently in Alberta and Saskatchewan, although it has land holdings in British Columbia. Merland discontinued its operations in the United States in 1983 and sold all of its United States producing properties, although it retained minor land holdings.

Natural Gas

Substantially all of Merland's revenue is derived from the production of natural gas in Alberta, where its most significant gas producing properties are located in the Medicine Hat and Birchwavy areas. Approximately 50% of Merland's Alberta proven gas reserves and 33% of its Saskatchewan proven gas reserves are on production.

Within the Medicine Hat area in southeastern Alberta, Merland has gas sales contracts currently providing for the sale of 35 mmcf/d net to Merland. Merland's net production from this area during 1985 was 6.8 bcf. Merland owns or has interests in four gas processing plants within this area located at Vale, Conlac, Bantry and Hilda.

Within the Birchwavy area of east central Alberta, Merland's gas production is contracted to TransCanada at the average rate of 50 mmcf/d. Merland produced 30.7 mmcf/d during 1985 from the area with gas being processed in plants located at Jarrow, Birchwavy, Viking-Kinsella and North Beaverhill Lake. The plants have an aggregate capacity of 55 mmcf/d. It is anticipated that new plants will be built in this area as required. Merland's net production from this area during 1985 was 11.2 bcf.

Revenue to Merland in 1985 from natural gas aggregated $50,203,000 and accounted for approximately 81.6% of Merland's gas and oil revenue.

The following table shows revenues (after royalties), derived by Merland from the sale of natural gas, production (before royalties), average price (before royalties) received per mcf of gas sold and average lifting costs for the periods indicated.

	Three Months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
Production (mmcf)	7,641	26,339	26,843	25,262	27,194	21,933
Revenues ($,000)	14,817	50,203	54,273	48,570	52,929	36,103
Average price ($/mcf)	2.52	2.56	2.72	2.58	2.64	2.32
Average lifting costs ($/mcf)	.30	.42	.35	.35	.28	.26

Gas Sales Contracts of Merland

Merland has a number of long-term gas sales contracts with TransCanada which provide for the sale of most of Merland's gas production. In particular, Merland's established gas reserves in the Birchwavy area of East Central Alberta and in the Medicine Hat area of Southeastern Alberta are covered by long-term gas sales contracts with TransCanada. These contracts remain in effect until 1996 and permit periodic redetermination of the quantity of gas that TransCanada is obligated to purchase. In the case of the Medicine Hat contract, the redetermination is based on the quantity of natural gas which Merland is able to deliver on a sustained basis; in the case of the Birchwavy contract, the redetermination is based on Merland's producible reserves. As a result of

these particular contracts, Merland is able from time to time to bring additional gas reserves in these areas into production.

In December 1982, in response to the continuing oversupply of contracted gas and general deterioration of gas market conditions, TransCanada and the majority of natural gas producers, including Merland, entered into Topgas One which recognized and paid for volumes of gas not taken and not paid for under the allocation schemes agreed to in 1978 to allocate available demand for gas equitably among TransCanada's contracted producers. Topgas One allows TransCanada to recover these volumes over a ten year period, commencing November 1, 1984. Substantial take or pay obligations were again incurred by TransCanada in 1983 which led to renewed negotiations between TransCanada and producers. Topgas Two was entered into by the majority of producers, including Merland, and TransCanada in December, 1983. Topgas Two modified the original program under Topgas One by setting the take or pay obligation at 50% of the original contract level, reducing the possibility of any significant future take or pay payments. At present TransCanada is unable to sell the total volume of its contracted gas and as such Merland's production is prorated according to TransCanada's total sales volume.

On November 1, 1984, TransCanada started to take delivery of gas pursuant to the take or pay provisions of certain natural gas purchase contracts amended under the Topgas One and Two agreements. It is anticipated that TransCanada will take delivery of this gas at a rate of approximately 10% per year over the next nine years.

Merland also has Alberta gas sales contracts with numerous other purchasers including Pan-Alberta Gas Ltd., Sulpetro Ltd. and KannGaz Producers Ltd. In Saskatchewan, Merland produces gas under two contracts with SPC.

Crude Oil

In 1985, production of crude oil and natural gas liquids totalled 360,000 barrels, providing revenue of $11,340,000 which accounted for approximately 18.4% of Merland's gas and oil revenue. Merland has two major oil producing properties located in the Taber area of Southeastern Alberta and in the Dodsland/Kindersley area of Southwestern Saskatchewan.

In the Taber area, Merland produced in 1985 an average of approximately 26.3 bopd net to Merland from 44 gross (14 net) wells. In the Dodsland/ Kindersley area, Merland produced in 1985 an average of 469 bopd net from 94 gross (65 net) wells.

The following table shows revenues to Merland (after royalties) derived from the sale of crude oil and natural gas liquids, the total production (before royalties), average price (before royalties) received per barrel sold, and average lifting costs per barrel for the periods indicated.

	Three Months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
Production (bbls)	111,060	359,769	276,703	288,060	237,963	166,129
Revenues ($,000)	1,929	11,340	8,373	7,913 (1)	5,839 (1)	2,716 (1)
Average price ($/bbl)	22.86	31.52	30.26	33.76	30.28	21.42
Average lifting costs ($/bbl)	4.67	6.93	5.47	12.98	6.69	4.49

(1) Includes United States production. During 1983 Merland discontinued its United States operations and sold all of its United States producing properties.

Oil and Gas Wells

The following table summarizes Merland's interests as at December 31, 1985 in oil and gas wells which are producing or which Merland considers to be capable of production. All wells that are not producing are shut-in gas wells which are located within 25 miles of transmission facilities.

	Gas Wells		Oil Wells	
	Gross	Net	Gross	Net
Alberta	1260	885	60	35
Saskatchewan	82	65	99	65
	1342	950	159	100

As at December 31, 1985 Merland had approximately 1,119,000 gross (500,000 net) developed acres.

Petroleum and Natural Gas Reserves

D & S has conducted an independent evaluation of Merland's petroleum and natural gas reserves as at December 31, 1985 in the D & S Merland Report. The D & S Merland Report is available for inspection at the principal office of Merland Explorations Limited, 700, 112 - 4th Avenue, S.W., Calgary, Alberta during normal business hours until June 24, 1986.

The results of the D & S Merland Report are summarized in the following tables. The pertinent assumptions and qualifications relating to prices, costs, technical matters and regulatory interpretation are discussed in detail in the D & S Merland Report. It should also be noted that all future net production revenues as set forth in the following tables are stated prior to provision for income taxes and any indirect costs.

It should be emphasized that the D & S Merland Report speaks as of December 31, 1985. Since that date, there has been a material reduction in the world price of oil which has not materially altered Merland's oil and gas reserves. Because most of Merland's reserves are gas, such reduction in the world price of oil has not materially altered the present worth, based on constant price assumptions, of future net oil and gas production revenues. It is possible that there will also be a reduction of the price received by Merland for its natural gas, although there has been none to date. The extent of any such price reductions cannot be determined at this time.

Merland does not represent that a particular discounted future net production revenue, as determined by D & S, quantifies the fair market value of the reserves.

	Gross Reserves (1)		Net Reserves (1)	
	Oil & NGLs (Mbbls)	Natural Gas (bcf)	Oil & NGLs (Mbbls)	Natural Gas (bcf)
Proved				
Developed producing (2)	1686.0	198.8	1466.0	160.9
Developed non producing (2)	24.6	181.2	21.0	141.5
Undeveloped (2)	262.9	35.1	252.8	31.6
Total proved	1973.5	415.1	1739.8	334.0
Probable additional (3)	569.8	50.9	515.0	45.0
Total proved and probable	2543.3	466.0	2254.8	379.0

Present worth of future net production revenue (5) based on escalating price assumptions (4), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	482,406	245,854	197,478	165,665
Developed non-producing	477,170	151,096	99,306	69,144
Undeveloped	134,463	30,410	17,397	10,678
Total proved	1,094,039	427,360	314,181	245,487
Probable additional	197,729	35,640	20,174	12,543
Total proved and probable	1,291,768	463,000	334,355	258,030
PGRT credit (6)	1,500	1,304	1,224	1,154
ARTC (7)	78,860	28,466	20,720	16,220
Total	1,372,128	492,770	356,300	275,403

Present worth of future net production revenue (5) based on constant price assumptions (8), discounted at:

	Undiscounted	10%	15%	20%
		($,000)		
Proved				
Developed producing	311,759	193,724	164,168	143,033
Developed non-producing	223,250	87,445	61,211	44,620
Undeveloped	53,687	15,223	9,386	6,072
Total proved	588,696	296,392	234,765	193,725
Probable additional	70,033	17,103	10,742	7,253
Total proved and probable	658,729	313,495	245,507	200,978
PGRT credit (6)	1,500	1,304	1,224	1,154
ARTC (7)	49,005	23,535	18,378	15,026
Total	709,234	338,334	265,108	217,158

The notes for the D&S Merland Report are identical to those set forth for the D&S NCO Report. See "Petroleum and Natural Gas Reserves of NCO".

Additional Information:

The D&S Report includes estimates of future net capital expenditures which are required to recover Merland's share of the oil and gas reserves. These capital expenditures for 1986, 1987 and in total over the estimated recovery period for the reserves can be summarized as follows:

Reserve Category	1986	1987	Total
		($,000)	
Proved			
Developed producing	143	313	777
Developed non producing	4,790	7,351	27,312
Undeveloped	2,917	1,885	15,229
Total proved	7,850	9,549	43,318
Probable additional	2,006	78	12,786
Total proved & probable	9,856	9,627	56,104

The above figures are expressed in constant 1986 dollars. Merland presently anticipates incurring these capital costs as indicated in such periods.

Approximately 48% of the proved gas reserves and 85% of the proved oil reserves are currently on production as indicated by the D&S Merland Report.

The production and revenue forecasts included in the D&S Merland Report do not take into account recovery of prepaid take or pay gas volumes. As of December 31, 1985 Merland had received prepaid take or pay monies totalling $27,152,000 for 18.7 bcf of natural gas. In accordance with Topgas One and Topgas Two these volumes will be produced over the next nine years. D&S has indicated that any take or pay liability should be considered similar to a bank loan and should be deducted from the cash flow forecasts included in the D&S Merland Report. For a description of Topgas One and Topgas Two see "Gas Sales Contracts of Merland".

The extent and character of ownership and all factual data pertaining to Merland's petroleum and natural gas properties and contracts (except for certain information residing in the public domain) were supplied to D&S by Merland. D&S accepted this data as presented and neither title searches nor field inspections were considered necessary by D&S. The D&S Merland Report was completed in accordance with generally accepted evaluation principles and the D&S opinion of standard oil industry practices.

No major discovery or other favourable or adverse event that is believed to have caused a significant change in Merland's proved reserves has occurred since December 31, 1985.

Since January 1, 1985, Merland has not filed any proved gas or oil reserve estimates with, or included such estimates in reports to, any governmental agency other than the SEC.

For additional information concerning Merland's reserves see Note 12 to the Consolidated Financial Statements of Merland.

Dependence Upon Major Purchasers

Merland has long term gas sales contracts with two of purchasers to whom it sells substantially all of its natural gas production. The following table summarizes the approximate split of Merland's sales by purchaser.

	1985		1984		1983	
	($,000)	%	($,000)	%	($,000)	%
TransCanada	54,954	68	62,421	75	49,556	68
SPC	6,784	8	7,845	9	8,031	11
	61,738	76	70,266	84	57,587	79

Capital Expenditures

The following table shows capital expenditures by Merland for property acquisition, oil and gas exploration and development, gas gathering and transmission facilities, and other assets for the period indicated.

	Three Months ended March 31	Year ended December 31				
	1986	1985	1984	1983	1982	1981
			($,000)			
Property acquisition	640	5,467	5,040	7,555	6,531	33,581
Exploration	1,840	5,131	8,005	2,777	20,187	24,486
Development	2,880	7,251	5,183	7,975	5,629	25,116
Gas gathering & transmission facilities	880	5,737	8,226	4,086	10,221	24,216
Other assets	—	(80)	141	1,424	98	2,155
Total	6,240	23,506	26,594	23,817	42,666	109,554

In addition, in the United States Merland had capital expenditures of $9,377,000 in 1982 and $13,817,000 in 1981. Merland discontinued its United States operations in 1983.

Undeveloped Land Holdings of Merland

The undeveloped land holdings of Merland as at December 31, 1985 are set forth in the following table. Fair market value has been estimated by D&S in the D&S Merland Report.

	Acres		Fair Market Value
	Gross	Net	
Alberta	764,460	285,795	$20,317,510
British Columbia	25,853	7,110	1,211,810
Saskatchewan	263,240	119,090	10,522,050
Total	1,053,553	411,995	$32,051,370

Drilling Activity

The following table sets forth the number of gross and net exploratory and development wells in which Merland has participated in drilling for the periods indicated.

	Three Months ended March 31		Year Ending December 31									
	1986		1985		1984		1983		1982		1981	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory												
Oil	7	3.1	17	7	9	7	12	6	7	3	6	3
Natural Gas	4	.5	21	9	18	13	23	15	77	53	76	51
Dry	3	1.4	11	5	21	14	16	8	36	25	31	23
	14	5.0	49	21	48	34	51	35	120	81	113	77
Development												
Oil	35	21.7	63	44	35	21	31	15	4	2	1	32
Natural Gas	13	4.7	24	13	40	26	64	34	129	99	153	64
Dry	4	2.1	8	3	14	11	13	7	26	15	16	9
	52	28.5	95	60	89	58	108	56	159	116	170	105
Total	66	33.5	144	81	137	92	159	91	279	197	283	182

In addition, Merland participated in drilling an aggregate 31 gross (11 net) wells in the United States in 1981 to 1983. Merland discontinued its United States operations in 1983.

Merland drilled no wells in April, 1986.

Selected Financial and Per Share Data of Merland

The following table summarizes certain financial and per share data in accordance with generally accepted accounting principles in Canada and is qualified by more detailed "Consolidated Financial Statements of Merland".

	Three Months ended March 31		Year ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)		($,000 except per share data)				
Financial Data							
Revenues	16,841	18,354	61,544	62,644	54,937	55,904	38,035
Net income (loss) from continuous operations	2,515	2,353	5,531	5,336	7,985	2,774	(282)
Total assets (at end of period)	252,212	246,508	250,664	246,842	238,772	247,733	232,665
Long-term debt (at end of period)	72,662	99,478	76,904	101,315	91,740	99,809	99,809
Per Common Share Data							
Earnings (loss) per common share from continuous operations	.06	.08	.07	.13	.26	.01	(.20)
Earnings (loss) per common share (1)	.06	.08	.07	.13	.10	(1.13)	(.27)
Cash dividend per common share	—	—	—	—	—	—	—
Book value per common share	1.34		1.26				

(1) As set out in note 11 to the Consolidated Financial Statements of Merland, under United States accounting principles, net earnings (loss) would be adjusted to the following: March 31, 1986 — $2,216; March 31, 1985 — $1,969; 1985 — $4,944; 1984 — $3,653; 1983 — $4,341; 1982 — $(20,262); 1981 — $(1,353). The earnings (loss) per common share would be $0.05, $0.06, $0.05, $0.05, $0.08, $(1.13), and $(0.26) respectively.

Consolidated Capitalization of Merland

	Authorized	Outstanding March 31, 1986		Outstanding April 30, 1986	
	Shares	Shares	Amount ($,000)	Shares	Amount ($,000)
Long term debt					
Bank indebtedness (1)			$ 38,355		$ 50,617
Income debentures (2)			16,380		16,290
Loan from affiliate			25,000		—
			79,735		66,907
Deferred revenue			24,814		24,814 (3)
Deferred income and resource taxes			35,347		35,347 (3)
Shareholders' equity					
Preferred shares	unlimited				
Series A	2,000,000	1,303,788	32,595	1,303,788	32,595
Series B	1,500,000	1,100,355	27,509	1,100,355	27,509
Common shares	unlimited	20,977,154	32,351	20,977,154	32,351
Deficit			(4,299)		(4,299) (3)
			88,156		88,156
Total capitalization			$228,052		$215,224

(1) Pursuant to an $82,000,000 unsecured revolving demand credit facility with a Canadian chartered bank which bears interest at prevailing bank prime rate.

(2) Income debentures are secured by assignments of certain Merland oil and gas properties under section 177 of the Bank Act. Principal is payable in quarterly installments with a final maturity date of June 30, 1988. Interest is at one half of prime plus 1⅛%.

(3) Amounts are as at March 31, 1986.

Description of Share Capital of Merland

Following is a brief description of the major attributes of the various classes and series of the share capital of Merland.

Common Shares

There are unlimited authorized and 20,977,154 issued and outstanding common shares of Merland. Holders of common shares of Merland are entitled to one vote per share at meetings of shareholders, to receive such dividends as declared by Merland, and to receive the remaining property of Merland on dissolution.

Merland First Preferred Shares

There are an unlimited number of authorized Merland First Preferred Shares, issuable in series of which two series have been issued. Each series of Merland First Preferred Shares ranks on a parity with every other series with respect to priority in payment of dividends and distribution of assets. The Merland First Preferred Shares have priority in the payment of dividends or distribution of assets over the common shares or any other shares ranking junior to the Merland First Preferred Shares.

(a) *Merland Preferred Series A Shares*

There are 2,000,000 Merland Preferred Series A Shares authorized, of which 1,303,788 are currently issued and outstanding. The holders of Merland Preferred Series A Shares are entitled to fixed cumulative preferential dividends, payable quarterly, at an annual rate of $2 per share. These shares are redeemable

by Merland at any time at varying prices. Merland has an obligation to purchase for cancellation, in the open market, a certain number of these shares in each calendar quarter commencing January 1, 1991, but the obligation may be extinguished or suspended in certain circumstances. The Merland Preferred Series A Shares are convertible into common shares of Merland until December 31, 1990 at a conversion price of $12.65 per Merland common share, subject to adjustment in certain circumstances, being the equivalent of 1.97628 common shares for each Merland Preferred Series A Share converted. The holders of Merland Preferred Series A Shares have the right to vote at meetings of shareholders if Merland fails to pay eight quarterly dividends. In the event of liquidation, dissolution, winding-up or other distribution of the assets of Merland, the holders of Merland Preferred Series A Shares will be entitled to receive $25.00 per share plus a premium equal to the premium payable upon the redemption of such shares if such shares were to be redeemed at the date of such event.

(b) *Merland Preferred Series B Shares*

There are 1,500,000 Merland Preferred Series B Shares authorized, of which 1,100,355 are currently issued and outstanding. The holders of Merland Preferred Series B Shares are entitled to fixed cumulative preferential dividends, payable quarterly, at an annual rate of $1.875 per share. These shares are redeemable by Merland at any time, although redemption prior to June 30, 1990, requires that certain conditions be met. The Merland Preferred Series B Shares are convertible into common shares of Merland until June 30, 1990 at a conversion rate of 5.25 common shares for each Merland Preferred Series B Share converted being the equivalent of $4.76 per Merland common share, subject to adjustment in certain circumstances. In the event of liquidation, dissolution, winding-up or other distribution of the assets of Merland, the holders of Merland Preferred Series B Shares will be entitled to receive $25.00 per share.

Dividend Record

Merland has paid dividends on the Series A and Series B Preferred Shares since their respective dates of issue at the rate and times stated in their respective provisions. To date, Merland's policy has been not to pay dividends on its common shares, but rather to reinvest its earnings in its business activities. This policy is periodically reviewed by the board of directors.

Price Range and Trading Volume of Listed Merland Shares

Common Shares

The common shares of Merland are listed and traded on the TSE. The following table sets out the high and low prices and trading volumes of the common shares as reported by such exchange for the periods indicated.

	Price ($)		
	High	Low	Volume
1984			
First Quarter	$5.375	$4.65	343,624
Second Quarter	4.95	4.50	315,244
Third Quarter	5.785	4.25	590,488
Fourth Quarter	5.75	4.30	448,697
1985			
First Quarter	4.75	4.05	700,265
Second Quarter	4.50	3.60	1,076,910
Third Quarter	3.80	3.25	707,248
Fourth Quarter	3.50	3.00	615,706
1986			
January	3.25	2.81	159,036
February	2.87	2.30	595,274
March	2.27	2.01	117,996
April	2.43	1.95	237,638

On April 30, 1986 the closing price of the common shares as reported by the TSE was $2.00. As at April 30, 1986 there were approximately 1,725 holders of record of Merland common shares.

Merland Preferred Series A Shares

The Merland Preferred Series A Shares are listed and traded on the TSE. The following table sets out the high and low prices and trading volumes of the Merland Preferred Series A Shares as reported by such exchange for the periods indicated.

	Price ($)		
	High	Low	Volume
1984			
First Quarter	$20 5/8	$18 3/8	43,295
Second Quarter	19	17 1/2	32,744
Third Quarter	19 3/4	17	58,892
Fourth Quarter	19 1/2	17 1/4	65,570
1985			
First Quarter	19 3/8	18 1/4	83,871
Second Quarter	19 3/4	18 7/8	81,301
Third Quarter	18 1/2	17 1/4	40,753
Fourth Quarter	19 3/8	18	42,702
1986			
January	18 3/4	17 3/4	48,500
February	18	16 1/4	59,350
March	16 7/8	15 1/8	23,145
April	16 1/2	14 3/4	31,400

On April 30, 1986 the closing price of the Merland Preferred Series A Shares as reported by the TSE was $16 1/4. As at April 30, 1986 there were approximately 950 holders of record of Merland Preferred Series A Shares.

Merland Preferred Series B Shares

The Merland Preferred Series B Shares are listed and traded on the TSE. The following table sets out the high and low prices and trading volumes of the Merland Preferred Series B Shares as reported by such exchange for the periods indicated.

	Price ($)		
	High	Low	Volume
1985			
June (from June 10)	25 1/4	24 3/8	11,153
Third Quarter	24 1/2	21 3/8	200,633
Fourth Quarter	23 1/8	21 1/4	46,834
1986			
January	21 7/8	20 5/8	13,002
February	20 1/2	18	15,378
March	18	16 1/8	15,872
April	18 1/4	15 7/8	10,820

On April 30, 1986 the closing price of the Merland Preferred Series B Shares as reported by the TSE was $18 1/4. As at April 30, 1986 there were approximately 290 holders of record of Merland Preferred Series B Shares.

Merland Directors

The following table sets forth certain information with respect to the persons who are the directors of Merland. Except for Mr. Gish, who was appointed a director December 18, 1985, all of the directors were elected by the shareholders of Merland at the annual general meeting of shareholders held on May 7, 1985 and have served continuously since the year first elected.

Name and Residence	Principal Occupation for the Past Five Years and Management Position, if any, with Merland	Year First Elected as Director	Age	Shares of Merland Owned
Walter J. Adams (3) Calgary, Alberta	(4)	1977	68	885,000 common(6)
Donald F. Christensen Calgary, Alberta	(5)	1981	58	Nil
Norman R. Gish Calgary, Alberta	(4)	1985	50	Nil
David W. Kerr (1)(2)(3) Toronto, Ontario	(4)	1984	42	2,000 common
Willard J. L'Heureux Q.C. (3) Toronto, Ontario	(4)	1984	38	2,000 common 300 Series B
Charles K. Lough (2) Calgary, Alberta	(5)	1985	58	Nil
Douglas W. Miller Calgary, Alberta	(4)	1985	56	Nil
E. Donald Patterson (2) Toronto, Ontario	(4)	1984	44	Nil (7)

(1) Chairman of the Board.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) These directors will also be directors of Amalgamated NCO. For a description of their principal occupations for the last five years and their management position, if any, with Merland see "Directors of Amalgamated NCO".

(5) These directors are also directors of NCO. For a description of their principal occupations for the last five years and their management positions with Merland, if any, see "Directors of NCO".

(6) Such shares are owned by Canadian American Loan and Investment Corporation. Mr. Adams is an officer and director of such corporation.

(7) Mr. Patterson is General Manager, Canadian Equity Investments of Ontario Hospital Association, which manages the assets of the Hospitals of Ontario Pension Plan, which Plan is the beneficial owner of 700,100 common shares of Merland. Mr. Patterson disclaims beneficial ownership of such shares.

Executive Officers of Merland

The executive officers of Merland are as follows:

Grant D. Billing is the Senior Vice-President, Finance and Administration and the Corporate Secretary.
Donald F. Christensen is the Senior Vice-President, Exploration and Land.
Norman R. Gish is the President and Chief-Executive Officer.
Charles Lough is the Senior Vice-President, Corporate Development.
William A. Trickett is the Senior Vice-President, Operations.

These individuals will be employed as officers in like capacities by Amalgamated NCO. For a description of their experience and expertise see "Key Management Personnel of Amalgamated NCO".

Executive officers of Merland as a group own 3,859 common shares of Merland and 100 Merland Preferred Series A Shares.

Remuneration of Merland Directors and Officers

The following table set forth certain information relative to the remuneration paid in 1985 to the directors of Merland, and to officers of Merland who received more than $40,000.

	Nature of Remuneration To Be Earned			
	Directors' Fees	Salaries	Other	Total
Remuneration of directors (1)	$37,253	—	—	$ 37,253
Remuneration of officers (2)		$605,141	$56,805	$661,946

(1) There were 11 directors until the Merland annual meeting held May 7, 1985, and there were eight directors thereafter in 1985 until Mr. Gish was appointed on December 18, 1985. One director ceased to be a director in January, 1986. All directors' fees were paid by Merland, and were paid to directors who were not officers of Merland or its affiliates for serving as members of the board of directors and committees of the board. These directors were entitled to $2,500 annually plus $250 per meeting attended. Members of committees were paid $250 per meeting of the committee attended.

(2) There were six officers throughout 1985 who received more than $40,000, all of the salaries of which were paid by Merland.

For services in all capacities rendered in 1985, Merland paid Grant D. Billing, Vice-President, Finance and Administration, $97,000. This does not include $20,115 representing the cost to Merland of club dues, imputed interest on loans for the purchase of common shares of Merland and a portion of the cost of a company car estimated for the personal use of Mr. Billing. In addition William A. Trickett, Vice-President, Operations of Merland during December, 1985 received $9,583, which does not include $2,100 representing the cost to Merland of benefits similar to those of Mr. Billing.

Merland Employee Savings Plan

Effective April 1, 1985, Merland introduced a group registered retirement savings plan ("Merland RRSP") combined with a deferred profit sharing plan ("Merland DPSP") for all employees. Pursuant to the combined Merland RRSP/DPSP plan, an employee may contribute up to 5% of his salary towards the RRSP and Merland matchs the employee's contribution. Merland's contribution is used to purchase shares of Merland which are held in the Merland DPSP subject to the vesting provisions. The employee's contribution to the Merland RRSP may be directed towards the purchase of either common shares of Merland or interest bearing securities, or a combination thereof. Shares of Merland are purchased monthly on the open market through the facilities of various stock exchanges.

Vesting provisions for shares held in the employee's Merland DPSP are as follows: no vesting in the year contributions are made or the year following; one-third vesting after two years; two-thirds vesting after three years; and all vested after four years. Contributions by employees and Merland are made on a monthly basis with Royal Trust Corporation of Canada as the trustee and administrator of the Merland DPSP.

The aggregate cost to Merland in 1985 of contributions to the Merland DPSP plan was $88,555. The Merland RRSP/DPSP plans will be terminated as at the Effective Date of the Amalgamation.

Indebtedness of Merland Officers and Directors

The following table sets forth certain details of the indebtedness of all officers and directors, or their associates, to Merland or any subsidiary during 1985 and at April 30, 1986:

Name	Maximum Indebtedness During 1985	Amount Outstanding at April 30, 1986
Grant D. Billing (1)	$ 93,375	Nil
William A. Trickett (1)	$146,250	Nil

(1) This indebtedness was initially incurred in connection with the purchase of common shares of Merland under the Management Share Purchase Plan of Merland, which was terminated in February, 1986. It was evidenced by a promissory note, and bore annual interest equivalent to the annual dividends, if any paid, on the common shares acquired. In February, 1986 Merland repurchased such common shares for an amount equal to the exercise price, proceeds of which were used to repay the outstanding indebtedness.

Benefits During the last Five Years for Officers and Employees of Merland

During the period April 1, 1984 through April 30, 1986 the aggregate cost to Merland of contributions to the Merland DDSP for the benefit of Mr. Billing was $5,404. During the period January 1, 1981 to March 31, 1984 the aggregate cost to Merland of contributions to a predecessor Employee Savings Plan for the benefit of Mr. Billing was $15,063.

Options

The following table shows as to Mr. Billing the amount of options granted under Merland's employee stock option plan between January 1, 1981 and April 30, 1986. Such options were terminated prior to exercise.

Granted — January 1, 1981 through April 30, 1986:	
Number of shares	35,000
Average per share exercise price	$5.57

The option price was at the closing price on the TSE of the common shares of Merland on the date the option was granted.

The following table shows as to Messrs. Billing and Tricket certain information with respect to the exercise of rights under the Merland Management Share Purchase Plan during the period beginning January 1, 1981 and ending April 30, 1986:

	Billing	Tricket
Granted — January 1, 1981 through April 30, 1986:		
Number of shares	25,000	50,000
Average per share exercise price	$3.735	$2.75
Exercised — January 1, 1981 to April 30, 1986:		
Number of shares	25,000	50,000
Net value realized (1)	$10,375	$15,000

(1) Net value realized is market value on the exercise date less exercise price.

In February, 1986 Merland repurchased the common shares acquired upon the exercise of rights.

The exercise price for the shares subject to the rights was 90% of the closing price of the common shares of Merland on the TSE on the date the rights were granted.

Management Agreement with NCO

Merland has no employees. Its business and affairs are managed by NCO pursuant to a Management Agreement. See "North Canadian Oils Limited — Management Agreement".

Principal Holders of Securities

To the knowledge of the management of Merland, the only person or company which beneficially owns, directly or indirectly, more than 5% of the common shares of Merland is Bankeno.

Material Contracts

The only material contract (other than contracts in the ordinary course of business) entered into by Merland since January 1, 1984 are:

1. Management Agreement dated February 1, 1986 among NCO, Bankeno and Merland as described under "North Canadian Oils Limited — Management Agreement".
2. Distribution Agreement dated May 1, 1986 among NCO, Merland and Bankeno as described under "Distribution of Merland Common Shares to Holders of Bankeno Common Shares".
3. Amalgamation Agreement dated May 1, 1986 among NCO and Merland.

Management's Discussion and Analysis of Financial Condition and Variations in Operating Results

The following discussion of results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements of Merland and related notes.

Liquidity and Capital Resources

During the past three years and the first quarter of 1986 Merland has followed the policy of funding its capital expenditure programs through internally generated cash flow. Working capital generated from operations for the three months ended March 31, 1986 was $10,454,000 and for the year ended December 31, 1985 totalled $31,306,000, a 10% increase over the 1984 figure of $28,538,000. The comparable figure in 1983 was $27,073,000. Capital expenditures for the same year period (after petroleum incentive program grants) were $23,506,000, $26,594,000 and $23,817,000 for 1985, 1984 and 1983 respectively and $6,240,000 for the three months ended March 31, 1986. The excess of cash flow from operations was used principally to fund preferred share dividend obligations.

After September 28, 1984, when NCO acquired the controlling interest in Bankeno, Merland's parent company, Merland was able to renegotiate its credit facilities such that at December 31, 1985 the majority of Merland's $83,605,000 debt is at Canadian bank prime rate and has no fixed repayment terms. In addition, Merland has an unused line of credit of $16,400,000.

During 1985 Merland issued 1,100,355 Merland Preferred Series B Shares for $27,509,000. The proceeds of the issue were used to reduce Merland's long-term debt. Accordingly, preferred share dividends increased to $3,998,000 in 1985 from the 1984 and 1983 amounts of $2,608,000.

Effective March 1, 1986 Merland disposed of certain interests in oil and gas properties in the Birch-Wavy area of Alberta to Bankeno for a cash consideration of $8,236,000, which was based on independently appraised values. This disposition will affect the operating results and financial position of Merland by reducing long term debt and diversifying Merland participation in the Birch Wary natural gas contract with TransCanada.

Interim Results of Operations for the quarter ended March 31, 1986 and 1985

Sales of petroleum and natural gas decreased 6.6% to $21,820,000 for the first quarter of 1986. Natural gas sales volumes for the quarter average 85 mmcf/d down 4 mmcf/d from 1985. Production of oil and natural gas liquids averaged 1,234 bopd for 1986 as compared to 825 bopd in 1985, an increase of 409 bopd. This increase in oil production is mainly due to new discoveries in Saskatchewan. The reduced export flowback portion of the gas sales price is reflected in a decrease of $1,313,000 in gas revenue to $19,282,000 as compared to $20,595,000 for 1985. Oil revenues decreased to $2,538,000 from $2,756,000 in 1985 as a result of lower oil prices.

Production expenses for 1986 were $2,833,000, down marginally from $2,963,000 in 1985. Depreciation and depletion expense increased $118,000 to $5,425,000 for 1986. Net corporate costs which include general and administrative expenses, interest income and expense and foreign exchange expense, decreased by $954,000 for the March 31, 1986 quarter to $3,338,000. Reduced average debt balances and lower interest rates resulted in a decrease in interest costs, while general and administrative costs were lower in 1986.

Results of Operations 1985 and 1984

Sales of petroleum and natural gas decreased 3% to $80,625,000 for 1985. Natural gas sales volumes for 1985 averaged 72 mmcf/d down marginally from the 1984 level of 74 mmcf/d. New oil discoveries, particularly in Southwest Saskatchewan, resulted in average oil and natural gas liquids production growing to 986 bopd in 1985 from 758 bopd in 1984. Decreased gas prices due to a drop in the export flowback portion of the gas sales price resulted in gas revenues dropping to $50,200,000 from $54,300,000. Oil revenues increased to $11,300,000 from $8,400,000 as a weakening Canadian dollar offset world oil price declines, thus holding oil prices relatively constant with increasing volumes.

Increased oil operating costs due to the new oil wells, together with higher costs associated with attempts to increase production rates from existing gas fields to offset the negative effects of field decline, market forces and contractual obligations resulted in operating expenses increasing to $13,531,000 from $11,020,000. Depletion

and depreciation increased to $18,692,000 from $17,896,000 because of a higher cost base with no appreciable change in reserves.

Net corporate costs, which include general and administrative expenses, interest income and expense and foreign exchange expense, decreased to $13,721,000 from $18,494,000. A decrease in average debt balances and lower interest rates resulted in lower interest costs, while a reduction in the number of employees and in the use of outside consultants caused a decrease in general and administrative expenses.

Results of Operations 1984 and 1983

Increased sales volumes of both oil and natural gas, together with increased oil and gas prices, resulted in total revenues, net of royalties, increasing to $62,644,000 from $54,937,000. Natural gas production grew to 74 mmcf/d from 69 mmcf/d which, together with the price increase, accounted for $5,700,000 of the change. New projects in Saskatchewan were the principal cause of oil production increasing to 758 bopd from 650 bopd. This increase in volumes, together with an increasing oil price resulting from a weakening Canadian dollar, accounted for the remaining $2,000,000.

The increased sales of oil and natural gas were responsible for operating costs increasing to $11,020,000 from $9,815,000 and depletion and depreciation increasing to $17,896,000 from $15,743,000.

During 1983, Merland discontinued the operations of its wholly-owned United States subsidiaries and effective December 31, 1983, an agreement was reached to sell all Merland's United States producing properties and substantially all of the United States non-producing properties.

Net corporate expenses increased to $18,494,000 from $16,227,000 as a result of higher interest rates on long-term debt, together with settlements paid in 1984 to terminated employees.

An increase in the rate of PGRT from 11% in 1983 to 12% in 1984, together with a reduction in the Alberta Royalty Tax Credit from $4,000,000 in 1983 to $2,000,000 in 1984, resulted in income and resource taxes increasing to $9,898,000 from $5,167,000.

Auditors

The auditors of Merland are Touche Ross & Co., Calgary, Alberta. The auditors of Merland for the fiscal years ended December 31, 1981, 1982, 1983 and 1984 were Peat, Marwick, Mitchell & Co., Calgary, Alberta. The audit committee of the board of directors of Merland approved the change of auditors.

Registrar and Transfer Agent

The registrar and transfer agent for the Merland common shares, Merland First Preferred Series A Shares and the Merland First Preferred Series B Shares is Royal Trust Company of Canada Limited at its principal offices in the cities of Calgary, Toronto and Montreal.

General Matters

For a description of certain general matters affecting Merland, such as "Industry Regulation" and "Competition" see "GENERAL MATTERS".

GENERAL MATTERS

Industry Regulation

Each of NCO, Merland and Bankeno is currently primarily engaged in the business of oil and gas exploration, development and production, principally in Canada. Amalgamated NCO will continue to be engaged in this business and will be subject to all applicable controls and regulations of government.

These controls and regulations are amended from time to time. Current legislation is a matter of public record and neither NCO nor Merland is able to predict what additional controls and regulations may come into effect through new legislation or amendments to additional legislation that affect the oil and natural gas industry or when, if enacted, any such legislation or amendments might become effective.

The oil and natural gas industry operates in Canada under federal and provincial legislation and regulations which govern land tenure, royalties, production rates, pricing, environmental protection, exports, taxation and other matters. Federal legislation regulates the price of oil and natural gas in interprovincial and export trade and the quantities of such products exportable from Canada. Provincial legislation has been enacted for the purpose of regulating the prices of oil and natural gas produced and consumed in those provinces and the quantities of such products which may be removed from those provinces.

On March 28, 1985 the Governments of Canada, Alberta, Saskatchewan and British Columbia announced a new agreement (the "Western Accord") with respect to the pricing and taxation of oil and natural gas which materially alters the agreements which the Federal Government had previously negotiated with each of those provinces. The principal effect of the Western Accord was to deregulate the price of oil as of June 1, 1985. This terminated the tiered pricing arrangements which had previously existed and has made the price of oil subject to negotiation between buyers and sellers having regard to general market conditions. The Western Accord also provided for the phaseout of the "PGRT" over four years, the elimination of a number of other energy taxes, the introduction of a credit against a corporation's PGRT and the termination of the Petroleum Incentives Program on March 31, 1986, except for eligible activities or certain Canada Lands which will qualify until December 31, 1987 and the termination of the Alberta Petroleum Incentives Program on March 31, 1986, except for certain eligible activities which will be covered until December 31, 1986.

On October 31, 1985 the Governments of Canada, Alberta, British Columbia and Saskatchewan announced another agreement (the "Natural Gas Accord") with respect to the pricing, marketing and export of natural gas. The Natural Gas Accord will deregulate the price of natural gas in interprovincial trade as of November 1, 1986. For the twelve (12) month period commencing November 1, 1985 the Toronto city gate floor price and the Alberta border price have been frozen. Effective November 1, 1986, the prices of all natural gas in interprovincial trade will be determined by negotiation between buyers and sellers. The Natural Gas Accord also may open the doors to increased exports of natural gas due to the elimination of certain price tests and export criteria which had previously limited the export of natural gas.

Various provinces provide incentives for exploratory activities, including the provision of cash payments, credits against royalties and royalty free periods.

Competition

The activity by oil and gas companies for prospective exploration and semi-proven acreage and the acquisition of proved reserves makes the oil and gas industry highly competitive. The success of a company depends, to a significant degree, on its ability to maximize the revenues from existing and newly found gas and oil reserves in order to maintain or increase its relative position within the industry. The achievement of this objective is contingent upon, but not limited to, factors such as price, demand for gas and oil versus other forms of energy, adequate production and transportation facilities and government policies. These factors are influenced by both domestic and world economic and political pressures and can have a significant impact on the business of Amalgamated NCO. Global market forces are currently causing oil prices to trend downward, and it is possible that there will also be reductions in natural gas prices. It appears that the market is seeking a new lower price level for oil, and certain major exporters are willing to test the downward elasticity in oil prices.

Legal Matters

Certain legal matters in connection with the Amalgamation are being reviewed, as to Canadian law, by MacKimmie Matthews, Calgary, Alberta and, as to United States law, by Jacobs Persinger & Parker, New York, New York. As at April 30, 1986 partners and associates of MacKimmie Matthews owned 240 NCO common shares, and Marshall A. Jacobs, a partner of Jacobs Persinger & Parker and a director of NCO and to be a director of Amalgamated NCO, owned eight NCO common shares.

Experts

The Consolidated Financial Statements of NCO included in this Proxy Circular have been reported on by Peat, Marwick, Mitchell & Co. in 1981 and 1982 and by Touche Ross & Co. in 1983, 1984 and 1985. The Consolidated Financial Statements of Bankeno have been reported on by Deloitte Haskins & Sells in 1981, 1982, 1983, 1984 and by Touche Ross & Co. in 1985. The Consolidated Financial Statements of Merland have been reported on by Peat, Marwick, Mitchell & Co. in 1981, 1982, 1983 and 1984 and by Touche Ross & Co. in 1985. Touche Ross & Co., Deloitte Haskins & Sells and Peat, Marwick, Mitchell & Co. are each firms of chartered accountants of Calgary, Alberta as indicated in their respective reports, which are included herein in reliance upon such firms as experts in accounting and auditing.

Each of the D&S NCO, Merland and Bankeno Reports referred to in this Proxy Circular have been prepared by D&S Petroleum Consulting Group Ltd., independent petroleum consultants of Calgary, Alberta as indicated in the respective reports. Excerpts therefrom are included herein in reliance upon such firm as experts in oil and gas engineering and appraising.

The Wright Report referred to in this Proxy Circular has been prepared by Wright Engineering Limited., independent mining consultants of Vancouver, British Columbia, as indicated in their report. Excerpts therefrom are included herein in reliance upon such firm as experts in mining engineering and appraising.

Shareholders Proposals for 1987 Annual Meeting of Amalgamated NCO

From time to time shareholders may present proposals which may be proper subjects for inclusion in the proxy circular and for consideration at the 1987 annual general meeting of shareholders of Amalgamated NCO. To be considered, proposals must be submitted on a timely basis. Proposals for the 1987 annual general meeting must be received by Amalgamated NCO no later than January 15, 1987.

NORTH CANADIAN OILS LIMITED

CONSOLIDATED BALANCE SHEET
(thousands of Canadian dollars)

ASSETS

	March 31	December 31	
	1986	1985	1984
	(unaudited)		(Restated)
CURRENT ASSETS			
Investments	$240,232	$248,397	$188,774
Accounts receivable	36,443	33,841	36,455
Prepaid expenses	683	560	482
	277,358	282,798	225,711
NOTE RECEIVABLE (Note 3)	65,000	65,000	—
OIL, GAS AND MINING PROPERTIES AND EQUIPMENT ("Full cost" Notes 1 and 4)	450,588	446,573	431,712
OTHER ASSETS, at cost	4,151	4,187	6,597
	$797,097	$798,558	$664,020

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES			
Accounts payable	$ 49,682	$ 32,929	$ 39,239
Current portion of deferred revenue	3,097	2,912	2,812
Current portion of long-term debt	7,321	6,949	5,119
	60,100	42,790	47,170
DEFERRED REVENUE (Note 5)	21,939	24,506	27,725
LONG-TERM DEBT (Note 6)			
Loans from affiliate	127,400	78,000	60,000
Other	175,370	249,622	194,387
	302,770	327,622	254,387
DEFERRED INCOME AND RESOURCE TAXES (Note 7)	46,727	43,516	32,261
MINORITY INTEREST (Notes 1 and 8)	70,053	69,207	46,215
SHAREHOLDERS' EQUITY			
Share capital (Note 9)			
Preferred	155,533	155,540	155,585
Common 10,906,239 shares at March 31, 1986 (1985 — 10,821,739; 1984 — 8,646,548)	44,895	44,895	23,291
Contributed surplus	142	140	129
Retained earnings	94,938	90,342	77,257
	295,508	290,917	256,262
CONTINGENCIES (Note 16)			
	$797,097	$798,558	$664,020

On behalf of the Board:

"Norman R. Gish" Director

"David W. Kerr" Director

NORTH CANADIAN OILS LIMITED

CONSOLIDATED STATEMENT OF INCOME
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
REVENUE							
Gas and oil, net	$30,440	$30,074	$113,980	$56,967	$32,626	$21,921	$15,228
Pipeline operations	3,184	3,359	9,757	8,005	6,577	5,842	6,076
Investment and other income	6,605	6,206	25,820	15,477	7,538	3,631	1,482
	40,229	39,639	149,557	80,449	46,741	31,394	22,786
EXPENSES							
Operating	4,740	4,839	22,514	10,259	4,659	4,462	2,899
Gas purchased for resale	2,324	2,073	5,809	5,040	4,464	4,374	4,910
Administrative	2,233	2,007	8,664	4,719	1,595	1,143	1,071
Interest on long-term debt	9,300	8,298	32,708	15,721	7,940	1,802	1,523
Depreciation and depletion	9,165	4,906	34,037	9,677	3,232	2,144	1,820
	27,762	22,123	103,732	45,416	21,890	13,925	12,223
Income from continuing operations	12,467	17,516	45,825	35,033	24,851	17,469	10,563
Gain on sale of coal properties	—	—	—	—	—	—	8,010
Income before taxes	12,467	17,516	45,825	35,033	24,851	17,469	18,573
Income and resource taxes (Note 7)							
Current	—	—	254	108	2,866	2,956	2,859
Deferred	2,451	4,538	10,268	6,761	3,294	3,302	5,635
Petroleum and gas revenue tax	2,917	3,306	11,816	5,983	3,618	1,625	1,228
Alberta Royalty Tax Credit	(981)	(573)	(3,721)	(2,271)	(1,504)	(2,308)	(1,179)
	4,387	7,271	18,617	10,581	8,274	5,575	8,543
Income before undernoted items	8,080	10,245	27,208	24,452	16,577	11,894	10,030
Equity in operating income of affiliate (Note 13)	—	—	—	—	—	—	1,699
Extraordinary items (Note 10)	—	—	—	—	—	—	(982)
Minority interest	1,702	1,478	4,242	442	—	—	—
NET INCOME	$ 6,378	$ 8,767	$ 22,966	$24,010	$16,577	$11,894	$10,747
Income per common share (giving effect to the 3:2 share split) (Note 9)							
Basic	$.42	$.80	$1.21	$2.26	$1.87	$1.38	$1.35
Fully diluted	$.33	$.40	$1.10	$1.59	$1.57	$1.38	$1.35

NORTH CANADIAN OILS LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
Balance at beginning of period	$90,342	$77,257	$ 77,257	$57,705	$39,150	$27,367	$16,814
Net income	6,378	8,767	22,966	24,010	16,577	11,894	10,747
Transfer from capital redemption reserve fund on continuance under the Canada Business Corporations Act	—	—	—	—	2,493	—	—
	96,720	86,024	100,223	81,715	58,220	39,261	27,561
Deduct							
Transfer to capital redemption reserve fund			—	—	22	53	132
Dividends on preferred shares	1,782	1,758	9,881	4,458	493	58	62
Balance at end of period	$94,938	$84,266	$ 90,342	$77,257	$57,705	$39,150	$27,367

NORTH CANADIAN OILS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
SOURCE OF FUNDS							
Funds provided from operations (Note 11)	$20,416	$19,599	$ 71,959	$ 41,753	$ 23,103	$17,340	$ 9,475
Proceeds on							
Issue of debentures	—	—	50,000	70,143	41,460	—	—
Issue of preferred shares	—	—	12,341	134,766	20,000	—	—
Issue of common shares	993	271	22,766	—	—	28	211
Sale of properties and other assets	171	—	—	—	123	73	8,618
Sale of long-term investments	—	—	—	—	41,279	—	—
Sale of shares of subsidiary	—	—	13,888	—	—	—	—
Increase in loans from affiliate	49,400	—	18,000	60,000	—	—	—
Redemption of investment in affiliate	—	—	—	—	—	16,900	1,500
Sale of investment in affiliate (net)	—	—	—	—	—	—	22,447
Assumption of long-term debt of affiliate	—	—	—	—	—	—	8,093
Increase in other long-term debt	—	127,055	26,695	22,539	—	41,359	—
Reclassification of long-term investments	—	—	—	—	25,796	—	—
Current liabilities-increase (decrease)							
Accounts payable	16,753	827	(6,310)	29,390	2,677	1,316	(926)
Income and other taxes payable	—	560	—	(5,825)	3,046	(1,611)	1,494
Current portion of long-term debt	372	425	1,830	4,739	75	305	—
Current portion of deferred revenue	185	(34)	100	2,812	—	—	—
Total funds provided	88,290	148,703	211,269	360,317	157,559	75,710	50,912
USE OF FUNDS							
Purchase of Bankeno Mines Limited (including working capital deficiency of $23,387) (Note 2)			—	158,689	—	—	—
Expenditures for oil, gas and mining properties and equipment	13,350	16,852	51,474	39,499	16,490	9,316	18,165
Note receivable	—	—	65,000	—	—	—	—
Purchase of long-term investments	—	—	—	—	—	67,075	19,219
Dividends on preferred shares	1,782	1,758	9,881	4,458	493	58	62
Dividends paid by subsidiary	856	624	3,126	—	—	—	—
Reduction in deferred revenue	2,567	1,816	3,219	1,241	—	—	—
Other	923	16	22	258	163	47	108
Reduction of long-term debt	74,252	—	21,460	80,000	730	305	9,600
Current assets — increase (decrease)							
Current portion of long-term investment	—	—	—	—	—	(1,000)	1,000
Accounts receivable	2,602	1,657	(2,614)	22,921	3,806	917	1,918
Prepaid expenses	123	(26)	78	423	26	(8)	(119)
Total funds used	96,455	22,697	151,646	307,489	21,708	76,710	49,953
Increase (decrease) in cash and investments	(8,165)	126,006	59,623	52,828	135,851	(1,000)	959
Cash and investments at beginning of year	248,397	188,774	188,774	135,946	95	1,095	136
Cash and investments at end of year	$240,232	$314,780	$248,397	$188,774	$135,946	$ 95	$ 1,095

NORTH CANADIAN OILS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which are in accordance with generally accepted accounting principles in the United States except as set out in Note 12.

Principles of Consolidation

The consolidated financial statements include the accounts of North Canadian Oils Limited, its wholly-owned subsidiary companies and, its 86.6% (1984 — 96.6%) interest in Bankeno Mines Limited which includes Bankeno's 53.0% interest in Merland Explorations Limited.

Operations of the Company

The Company is principally engaged in the exploration, development and production of oil and gas, all significant assets and operations of which are located in Canada.

The Company conducts substantially all of its oil and gas exploration and production activities on a joint venture basis and the accounts reflect only the Company's proportionate interest in such activities.

Oil and Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenditures, under which all costs related to the exploration and development of oil and gas reserves are capitalized. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells and overhead related to exploration and development. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Depletion of oil and gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon estimated proven reserves, before royalties, converted to a common unit of measure using relative energy content.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year-end market prices less future administrative, financing and income tax costs.

Pipeline assets are depreciated over the term of the existing gas contracts and other equipment is depreciated over the estimated useful lives of the assets.

Mining

The Company holds a 25% royalty interest in a mine, the cost of which will be depleted when revenue commences.

Investments

Investments, the majority of which have no quoted market values, are stated at the lower of cost and estimated net realizable value.

Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowance and exploration and development costs in excess of the depreciation and depletion provisions recorded in the accounts. Investment tax credits are deducted from the related expenditures.

Income Per Common Share

Basic income per common share is computed by dividing net income, after provision for preferred dividend requirements, by the weighted average number of common shares outstanding giving effect to the 3:2 share split which was effective August 8, 1985 (1985 — 10,821,739; 1984 — 8,646,548; 1983 — 8,584,298; 1982 — 8,585,255; 1981 — 7,963,139). Fully diluted income per common share has been computed as above and also assumes the conversion of all instruments effective the date of issue (weighted average number of common shares — 1985 — 17,481,559; 1984 — 14,275,929; 1983 — 11,220,609; 1982 — 8,585,225; 1981 — 7,963,139) and takes into account the related adjustments to net income.

2. PURCHASE OF BANKENO MINES LIMITED

Under a purchase agreement with an effective date of September 28, 1984, and by a related offer to minority shareholders, the Company acquired 96.6% of the common shares and 91.2% of the share purchase warrants of Bankeno Mines Limited ("Bankeno"), a company engaged in oil, gas and mining. The accounts of Bankeno have been consolidated with the Company since September 28, 1984 and the excess of the purchase cost over the related net book value of assets acquired has been allocated to oil, gas and mining properties and will be amortized on the unit-of-production method.

In 1985 the accounts of Bankeno were adjusted for certain accounting errors which occurred prior to the date Bankeno was acquired by the Company. As a result, the excess purchase price which was allocated to oil and gas properties at the time the Company acquired Bankeno in 1984 has been reduced by $10,222,000, minority interest has been reduced by $10,222,000 and the accompanying consolidated balance sheet for 1984 has been restated accordingly. There is no significant effect on earnings for either 1985 or 1984 as a result of these adjustments.

The acquisition (using the adjusted accounts of Bankeno at date of acquisition) has been accounted for as a purchase as follows:

	(In thousands)
Net assets acquired:	
Current assets	$ 10,487
Oil, gas and mining properties and equipment	272,691
Other assets	6,310
	289,488
Current liabilities	33,874
Deferred revenue	28,966
Other liabilities	96,084
Minority interest	45,932
	204,856
	$ 84,632
Consideration:	
10% debentures and cash	$ 70,536
Class B preferred shares, Series 3	64,766
	$135,302

The following pro forma information has been prepared as if Bankeno had been consolidated at January 1, 1983:

	Year ended	
	1984	1983
	(in thousands, except per share data)	
Revenue	$130,570	$110,062
Net income	$25,882	$17,981
Income per common share		
Basic	$2.01	$1.41
Fully diluted	$1.61	$1.14

3. NOTE RECEIVABLE

The note receivable from a major corporation bears interest at prime rate, is secured by a pledge of certain marketable securities and is due no later than January 9, 1995.

4. OIL, GAS AND MINING PROPERTIES AND EQUIPMENT

	March 31, 1986	December 31	
	(unaudited)	1985	1984
		(in thousands)	(Restated)
Oil and gas properties and production equipment	$472,141	$459,233	$410,409
Pipeline and other equipment	7,743	7,743	7,314
Mining — royalty interest	43,101	43,013	42,629
	522,985	509,989	460,352
Less accumulated depreciation and depletion	72,397	63,416	28,640
	$450,588	$446,573	$431,712

Grants under petroleum incentive programs aggregating $7,728,000 in 1985 and $4,279,000 in 1984 have been accrued in accordance with the regulations and treated as a reduction of the cost of related oil and gas exploration and development expenditures.

5. DEFERRED REVENUE

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments were received by the Company in respect of annual contract gas volumes not taken by the purchaser. In November, 1984 the purchaser began to take delivery of the gas and the Company has recognized revenue related to the gas taken. The purchaser's present delivery schedule for the gas will allow recognition after 1986 of $24,506,000 of revenue over eight years with $2,800,000 annually in 1987 through 1988, $3,400,000 annually in 1989 through 1993 and $1,906,000 in 1994.

6. LONG-TERM DEBT

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(in thousands)	
11¼% sinking fund debentures	$ 2,938	$ 2,938	$ 3,274
Income debentures	16,380	17,869	22,896
Floating rate convertible debentures	—	—	21,460
10% debentures	70,143	70,143	70,143
8% convertible debentures	50,000	50,000	—
Bank indebtedness	38,756	111,235	77,666
Loans from affiliate	127,400	78,000	60,000
Mining loan	4,474	4,386	4,067
	310,091	334,571	259,506
Less current portion of long-term debt	7,321	6,949	5,119
	$302,770	$327,622	$254,387

The 11¼% sinking fund debentures and the income debentures are secured by certain of the Company's oil and gas properties. The income debentures are due June 1988 and bear interest at one half of the bank's prime lending rate plus 1⅛% to maturity and are repayable as follows: 1986 — $6,701,000; 1987 — $7,445,000; 1988 — $3,723,000. The sinking fund debentures are redeemable at 102.50% of the principal amount to August 31, 1988. In addition, the Company is required to make sinking fund payments sufficient to retire on August 31, in each of the years 1986 and 1987, $917,000 principal amount of debentures and $1,775,000 to 1988.

The 10% debentures were issued pursuant to a Trust Indenture in connection with the purchase of Bankeno Mines Limited and are secured by a pledge of certain preferred shares and the common shares and share purchase warrants of Bankeno Mines Limited held by the Company. Upon meeting certain requirements, the pledged securities will be released by the trustee. The Trust Indenture imposes certain restrictions on the Company. The debentures are due September 28, 1994 without current principal repayments.

On October 4, 1985, the Company issued $50,000,000 principal amount of 8% convertible debentures. The debentures are unsecured obligations of the Company maturing on September 30, 1996 and bear interest payable annually on December 31st at the annual rate of 8%, the first interest payment to be made on December 31, 1986. The debentures are convertible at any time by the holder into class B junior preferred shares, series 4 on the basis of $17.50 principal amount for one preferred share. Until December 31, 1986, the Company may not cause less than the total principal amount of debentures outstanding to be converted into class B junior preferred shares, series 5 on the basis of $17.50 principal for one preferred share.

The mining loan bears interest at prime rate and no interest or principal payments are required until royalty revenue is received.

The Company has lines of credit from bankers and an affiliate in the amount of $347,000,000 at December 31, 1985 which when drawn down bear interest at prime rate and are repayable on demand. These lendors have agreed not to require repayment of the bank indebtedness or loans prior to December 31, 1986 and accordingly, the indebtedness and loans have been classified as long-term. Of the total bank indebtedness and loans of $189,235,000, at December 31, 1985, $58,500,000 is secured by an assignment of certain common and preferred shares of subsidiary companies.

7. INCOME AND RESOURCE TAXES

The provisions made for income taxes differ from amounts which would have been expected if it were assumed that the reported pre-tax income were subject to the Canadian Federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided are as follows:

	1985	1984	1983	1982	1981
			(in thousands)		
Computed "expected" income tax at 48%	$ 21,996	$16,816	$11,928	$ 7,605	$ 8,325
Increase (decrease) in income taxes resulting from:					
Effect of subsidiaries and consolidation	1,161	—	—	—	—
Non-deductibility of royalties and other payments to the Crown	8,384	5,403	3,384	2,351	2,119
Federal resource allowances	(12,343)	(7,210)	(3,638)	(2,356)	(1,654)
Allowance for earned depletion	(1,819)	(760)	(107)	(181)	(105)
Provincial taxes less federal abatement	449	392	291	194	246
Provincial rebates and credits	(3,721)	(2,271)	(1,504)	(2,308)	(1,179)
Non-taxable Canadian dividends	(8,618)	(7,429)	(4,357)	(1,598)	(515)
Petroleum and gas revenue tax	11,816	5,983	3,618	1,625	1,228
Other	1,312	(343)	(1,341)	243	78
Actual income and resource taxes	$ 18,617	$10,581	$ 8,274	$ 5,575	$ 8,543

Deferred income taxes arise from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which give rise to such timing differences, and the amount of deferred income taxes attributable thereto, are as follows:

	1985	1984	1983	1982	1981
			(in thousands)		
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the accounts	$ 618	$ (478)	$ 420	$ 411	$ 800
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion in the accounts	9,650	7,239	2,874	2,891	4,835
Total deferred income taxes	$10,268	$6,761	$3,294	$3,302	$5,635

8. MINORITY INTEREST

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(in thousands)	(Restated)
Preferred shares	$43,535	$43,535	$31,194
Common shares	31,706	31,706	23,216
Retained earnings (deficit)	(5,188)	(6,034)	(8,195)
	$70,053	$69,207	$46,215

During 1985, a subsidiary issued preferred shares in the total amount of $27,509,000, of which the Company purchased $15,168,000. In addition, the Company sold in 1985 a 10% interest in Bankeno Mines Limited for total proceeds of $13,888,000 resulting in a gain on sale of $131,000. As set out in Note 2, minority interest in 1984 has been restated to reflect the retroactive adjustments made in the accounts of Bankeno for prior years.

9. SHARE CAPITAL

Authorized

20,149 5½% cumulative redeemable sinking fund preferred shares, each share having a stated value of $50
10,000,000 Class A junior preferred shares issuable in series
10,000,000 Class B junior preferred shares issuable in series
20,000,000 Class A shares each without nominal or par value
20,000,000 Common shares each without nominal or par value

Issued

	March 31, 1986 (unaudited)		December 31 1985		December 31 1984	
	Shares	Amount	Shares	Amount	Shares	Amount
		(in thousands)		(in thousands)		(in thousands)
Preferred						
5½% cumulative redeemable	15,546	$ 777	15,686	$ 784	16,394	$ 819
Class A, Series 1	2,000,000	50,000	2,000,000	50,000	2,000,000	50,000
Class B, Series 1	1,000,000	20,000	1,000,000	20,000	1,000,000	20,000
Class B, Series 2	800,000	20,000	800,000	20,000	800,000	20,000
Class B, Series 3	2,158,545	64,756	2,158,545	64,756	2,158,881	64,766
		$155,533		$155,540		$155,585
Common	10,906,239	$ 47,019	10,821,739	$ 46,026	8,646,548	$ 24,193
Less: Notes Receivable (Note 13)		2,124		1,131		902
		$ 44,895		$ 44,895		$ 23,291

Class A Preferred Series 1

The Class A preferred shares, Series 1 rank junior to the 5½% cumulative redeemable preferred shares with respect to all rights, privileges, restrictions and other conditions and holders of these shares are entitled to dividends, when declared, at the semi-annual rate of 70% of the floating bank prime rate per share. These shares are redeemable by the Company under certain conditions after June 30, 1989 and prior to June 30, 1993.

Class B Preferred Series 1, Series 2, Series 3, Series 4 and Series 5

The Class B preferred shares, Series 1 to 5 rank junior to the 5½% cumulative redeemable preferred shares and the Class A preferred shares, Series 1 with respect to all rights, privileges, restrictions and conditions attaching to the preferred shares. The Series 1 shares

are convertible at $13.33 per share into one common share prior to April 1, 1993, the Series 2 shares are convertible at $16.67 per share into one common share after December 31, 1984 and prior to September 2, 1993, the Series 3 shares are convertible at $20.00 per share into one common share prior to September 28, 1989 and, the series 4 and 5 shares are convertible into one common share prior to September 30, 1993. The Series 1 to 3 shares earn cumulative dividends (Series 1 and 2 at the annual rate of one-half bank prime plus one percent, Series 3 at the annual rate of one-half bank prime) and are redeemable by the Company under certain conditions. The Series 4 and 5 shares earn dividends (non-cumulative until September 30, 1993) at the rate of one-half prime rate and one-half prime rate plus 2½% respectively and are redeemable by the Company after September 30, 1990 under certain conditions.

During 1984, the Class B preferred shares, Series 2 were issued on conversion of the 8% convertible debentures in the principal amount of $20,000,000. There are no outstanding Class B preferred shares, Series 4 and 5.

Common Shares Issued and Reserved

Effective August 8, 1985, the Board of Directors approved a sub-division of each issued and outstanding common shares of the Company into one and one-half common shares. During 1985 1,427,340 common shares were issued on redemption of the floating rate convertible debentures and 3,360 shares were redeemed for cash by the Company for a total principal amount of $21,460,000. An additional 34,200 common shares (1984 — 41,500) were issued under the Company's share purchase plan in 1985 (84,500 common shares during the three month period ended March 31, 1986).

At December 31, 1985 the Company has reserved for issue a total of 8,821,961 common shares under conversion rights of the issued preferred shares and outstanding stock options (8,817,461 shares at March 31, 1986).

10. EXTRAORDINARY ITEMS

	1981
Loss on sale of investment (including related income taxes of $226,000)	$(2,335)
Equity in extraordinary item in affiliate	
— Reduction of income taxes on application of losses brought forward	941
— Gain on sale of investments	412
Total (representing loss of $.12 per common share)	$ (982)

11. FUNDS FROM OPERATIONS

	Three Months Ended March 31		Year Ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)		(in thousands)				
Net income	$ 6,378	$ 8,767	$22,966	$24,010	$16,577	$11,894	$10,747
Add (deduct) items:							
Depreciation and depletion	9,165	4,906	34,037	9,677	3,232	2,144	1,820
Deferred income taxes	2,451	4,538	10,268	6,761	3,294	3,302	5,635
Deferred petroleum and gas revenue tax	763	—	1,432	—	—	—	—
Minority interest	1,702	1,478	4,242	442	—	—	—
Gain on sale of coal properties	—	—	—	—	—	—	(8,010)
Equity in operating income of affiliate	—	—	—	—	—	—	(1,699)
Extraordinary items	—	—	—	—	—	—	982
Other	(43)	(90)	(986)	863	—	—	—
	$20,416	$19,599	$71,959	$41,753	$23,103	$17,340	$ 9,475

12. UNITED STATES ACCOUNTING PRINCIPLES DIFFERENCES

The accounting principles followed in the preparation of the financial statements of the Company differ in certain respects from accounting principles generally accepted in the United States. Such differences relate to the financial statements of the affiliate accounted for by the equity method in 1981. The aggregate effect of the adjustments on reported income for the year ended December 31, 1981 would be to reduce income before the undernoted of $10,030,000 and extraordinary items of ($982,000) to $7,694,000 and nil respectively and to increase the equity in operating income of the affiliate from $1,699,000 to $3,053,000.

13. OTHER INFORMATION

Share Purchase Plan

The Company has a Management Share Purchase Plan under which 100,000 common shares may be purchased by the management of the Company. During 1985, 34,200 common shares were allocated and purchased under this plan. Notes receivable in respect of the shares purchased under this plan in the amount of $892,000 at December 31, 1985 and $682,000 at December 31, 1984 are due from officers and are shown as a reduction of common share capital. ($1,884,000 at March 31, 1986.)

The Employee Stock Option Plan expired during 1983 and the unexercised stock options totalling 18,000 common shares expire in 1986 and 1987. Notes receivable in respect of the stock option plan in the amount of $220,000 at December 31, 1985 and $220,000 at December 31, 1984 are due from directors, officers and a retired director and are shown as a reduction of common share capital.

Employee Incentive Plans

The Company has an Employee Profit Sharing Plan for technical and other personnel directly involved in exploration and development. Contributions to the plan by the Company may be made in cash or as a royalty interest in petroleum natural gas and related hydrocarbons attributable to the Company's interest in certain non-producing exploration lands. The Company's contributions to the plan in 1983 consisted of a gross overriding royalty interest having a nominal fair market value at the time of contribution. The royalty interest vests with each participant at the rate of 20% per year until fully vested; however, all amounts received in respect of the contingently vested portion of any royalty interest is fully vested as and when received.

Effective January 1, 1984, the Company adopted an Employee Production Incentive Plan which is intended to substantially replace the Employee Profit Sharing Plan and is for technical and other personnel directly involved in the Company's gas and oil exploration and development. Contributions to this plan by the Company are made in the form of a revenue contribution determined on a formula basis from production from defined wells. The revenue contribution vests with each participant at the rate of 20% per year until fully vested. However, cash received in respect of the non-vested portions of the revenue contribution is fully vested as and when received.

Pension Plan

The Company pension plan is a defined benefit plan, which is available to all employees. Based on an actuarial valuation dated April 1, 1985, there is no significant unfunded liability at December 31, 1985. As at April 1, 1985, the present value of accumulated pension benefits using a 5.5% rate of return was $1,482,000 and net assets available for benefits were $1,475,000. Pension expense contributions totalled $104,000 in 1985 (1984 — $164,000; 1983 — $139,000; 1982 — $69,000; 1981 — $ Nil).

Related Party Transactions

From time to time, the Company arranges investment transactions in conjuction with certain affiliates. These transactions are arranged without cost and at normal market terms. Investments totalling $142,208,000 at December 31, 1985 (1984 — $150,004,000) were with affiliated companies. Dividends from such investments totalled $13,235,000 in 1985 (1984 — $13,477,000; 1983 — $ Nil).

The Company also arranges financing transactions with affiliates at normal market terms. In 1985 the Company paid interest in the amount of $12,898,000 (1984 — $4,170,000) on loans from a shareholder company, $78,000,000 (1984 — $60,000,000) of which was outstanding at year-end. In addition, interest of $ Nil (1984 — $1,164,000; 1983 — $828,000) on floating rate convertible debentures was paid to two shareholder companies. Dividends of $4,547,000 (1984 — $3,681,000) were also paid to affiliates on Class A preferred shares, Series 1, and Class B preferred shares, Series 1.

The Company accrued professional fees aggregating $237,000 $295,000, $237,000 $157,000 and $517,000 to three legal firms in which certain directors of the Company are partners for the years ended December 31, 1985 to 1981 respectively.

Prior to 1981, the Company owned all the common shares of an affiliate which carried only 49.3% of the total voting rights. Accordingly, the Company accounted for its investment in this affiliate on the equity basis. On May 1, 1981, the Company sold this investment for a consideration of $23,400,000 to a corporation holding 1,488,286 common shares of the Company. Such corporation was wholly-owned by a director of the Company. Immediately prior to sale, the Company reacquired from the affiliate certain gas property interests for a consideration of $8,093,000 and assumed the affiliates' 11¼% debentures in the amount of $8,093,000 (including $2,325,000 of such debentures held by the Company) secured by the gas property interests. The gas properties were assigned a carrying value of $7,274,000 being the Company's cost assigned to such properties prior to the sale. The Company, from the proceeds of the sale purchased 736,000 redeemable preference shares of the affiliate having an aggregate par value of $18,400,000. The Company received $836,000 and $1,075,000 of dividends in 1982 and 1981 respectively and $500,000 of those shares were redeemed in 1981. During 1982 the affiliate redeemed all remaining preference shares at par.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Three months ended			
	Dec. 31	Sept. 30	June 30	March 31
	(in thousands)			
1985				
Net revenue	$39,412	$33,086	$37,420	$39,639
Net income***	$ 182	$ 6,086	$ 7,931	$ 8,767
Net income (loss) per common share after preferred share dividends*				
Basic	$ (0.26)	$ 0.40	$ 0.27	$ 0.80
Fully diluted	$ (.09)	$ 0.31	$ 0.48	$ 0.40
1984**				
Net revenue	$36,653	$13,315	$14,595	$15,886
Net income	$ 7,055	$ 4,653	$ 5,801	$ 6,501
Net income per common share after preferred share dividends*				
Basic	$ .51	$ .41	$ .59	$ .75
Fully diluted	$ .33	$ .29	$ .43	$ .52

* Gives effect to the 3:2 common share split effective August 8, 1985.

** The quarter ending December 31, 1984 includes the results of Bankeno Mines Limited.

*** The reduced net income in the fourth quarter of 1985 resulted from increased depletion and depreciation as a result of a re-evaluation of oil and gas reserves.

15. DEPENDENCE UPON LIMITED CUSTOMERS

Two customers to whom the Company sold natural gas and which individually accounted for more than 10% of gross revenue before investment income are as follows:

	Amounts		Percent of total revenue	
	1985	1984	1985	1984
	(in thousands)			
Company				
TransCanada PipeLines Limited	$ 73,882	$36,292	60	56
Saskatchewan Power Corporation	30,377	15,188	25	23
Total	$104,259	$51,480	85	79

16. CONTINGENCIES

a) By statement of claim served on the Company on September 21, 1984, an action was commenced against the Company by certain minority shareholders of Bankeno. The claim alleges that the Company, by reason of the transactions described in Note 2, is converting to its own use certain Bankeno shares issued to Turbo Resources Limited and purchased by the Company. The plaintiffs claim, among other things, an order cancelling the issue of any Bankeno shares that may be issued to the Company as a result of this transaction and damages of $5,000,000. The Company believes that no liability will result from this action.

b) Commitments and contingencies exist under agreements and operations in the normal course of business, the total amount of which in the opinion of management would not be significant to the financial position of the Company.

17. DISCLOSURE OF OIL AND GAS PRODUCING ACTIVITIES AS REQUIRED BY STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 69 (unaudited)

Capitalized costs relating to oil and gas producing activities

At December 31, 1985 and 1984 there were no significant capitalized costs relating to unproved oil and gas properties.

Costs incurred in oil and gas property acquisitions, exploration and development activities for the years ended December 31:

	1985	1984	1983
	(in thousands)		
Acquisition of properties	$13,347	$ 8,459	$2,936
Exploration	14,212	5,873	2,677
Development	23,834	23,580	9,652

Results of operations for producing activities ended December 31:

	1985	1984	1983
	(in thousands)		
Revenue			
Sales (net)	$113,980	$56,967	$32,626
Production costs	21,770	9,775	4,167
Depreciation and depletion	33,312	9,320	3,091
	55,082	19,095	7,258
Income before taxes	58,898	37,872	25,368
Income and resource taxes	29,973	17,988	10,897
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 28,925	$19,884	$14,471

Estimated quantities of proved oil and gas reserves as at December 31 (unaudited)

	1985		1984		1983	
	Oil	Gas	Oil	Gas	Oil	Gas
Beginning of year	4,582	1,025.4	1,223	578.8	1,313	590.9
Revisions of previous estimates	(673)	(297.8)	24	—	(45)	(0.5)
Improved recovery	—	—	—	9.0	—	—
Purchase of minerals-in-place	—	—	3,396	464.0	—	—
Extensions and discoveries	2,167	105.0	215	—	66	5.9
Production	(747)	(48.3)	(276)	(26.4)	(111)	(17.5)
Sale of minerals-in-place	—	—	—	—	—	—
End of year	5,329	784.3	4,582	1,025.4	1,223	578.8

i) Oil is stated in thousands of barrels before royalty interests and gas is stated in billion cubic feet before royalty interests.

ii) The 1985 revisions are the result of a re-evaluation of the quantity and recoverability of reserves based on studies of existing reserves. The year-end quantities are based on independent engineering reports.

iii) The 1985 and 1984 year end reserve data includes 100% of the reserves of the Company's 86.6% owned subsidiary, Bankeno Mines Limited and its 53.0% interest in Merland Explorations Limited. Bankeno Mines Limited was acquired on September 28, 1984 as set out in Note 2.

iv) At December 31, 1985, 229 billion cubic feet of gas (1984 — 217) and 1,210 thousands of barrels of oil (1984 — 1,561) are attributable to minority interests in subsidiaries.

v) At December 31, 1985, 187.2 billion cubic feet of gas and 262.9 thousands of barrels of oil of the total proved reserves are undeveloped.

vi) There are no long-term supply agreements with foreign governments or any significant foreign geographic reserves.

Standard measure of discounted net cash flows and changes therein relating to proved oil and gas reserves at December 31 (unaudited)

	1985	1984	1983
		(in thousands)	
Future cash inflows	$1,628,934	$1,930,901	$1,106,872
Future production and development costs	443,170	606,596	323,994
Future income tax expenses	385,003	478,195	301,472
Future net cash flows	800,761	846,110	481,406
10% annual discount for estimated timing of cash flows	405,935	481,360	312,915
Standardized measure of discounted net cash flows	$ 394,826	$ 364,750	$ 168,491

i) Future net cash flows were computed using year-end prices and costs and year-end statutory tax rates.

ii) At December 31, 1985 approximately $118,000 (1984 — $108,000) of net cash flows are attributable to minority interests in subsidiaries.

The following are the principal sources of change in the standardized measure of discounted future net cash flows (unaudited):

	1985	1984	1983
		(in thousands)	
Sales and transfers of oil and gas produced, net of production cost	$ (91,466)	$ (47,193)	$ (28,459)
Net changes in prices and production costs	(42,982)	(36,253)	315,423
Purchase of minerals-in-place	—	477,049	—
Extensions, discoveries, and improved recovery, less related costs	92,995	13,220	6,858
Development costs incurred during period	23,834	23,580	(9,652)
Net change in development costs	(25,839)	—	—
Revisions of previous quantity estimates	(153,012)	—	—
Accretion of discount	36,475	16,849	12,289
Net changes in income taxes	93,192	(176,723)	(157,070)
Other	96,879	(74,270)	(93,792)
	$ 30,076	$ 196,259	$ 45,597

Amortization per equivalent physical unit of production (Mcf):

	1985	1984	1983
Depreciation and depletion	$.60	$.33	$.13

ACCOUNTING FOR THE EFFECTS OF CHANGING PRICES Supplemental Information (Unaudited)

The Canadian Institute of Chartered Accountants (CICA) recommends the disclosure of supplementary financial information on a current cost basis commencing with the fiscal year ended December 31, 1983. The CICA deemed this disclosure necessary to reflect the economic effects of changes in the general purchasing power of monetary unit and changes in specific prices of goods and services during periods of significant inflation.

The Company generally supports the initiative in requiring companies to disclose information of the effects of changing prices. However, it is the opinion of the Company that further work is required in the area of specialized assets, as in the oil and gas industry, in order to provide more meaningful information to the reader.

The recommendations of the CICA have generally been adopted in preparing information on the effects of changing prices. The Company, however, has made certain subjective modifications as allowed by the CICA guidelines which are presented below.

The Company follows the full cost method of accounting for oil and gas properties. The historical costs for oil, gas and mining properties and equipment have been adjusted by the consumer price index instead of by a specific price index for each class of asset. Fixed assets, other than oil, gas and mining properties and equipment, which represents less than 5% of total assets, have not been adjusted, as it is the opinion of the Company that the historical costs approximate current costs.

Depreciation, depletion and income taxes have been calculated on the same basis as for historical costs but using the current cost base. No adjustment to the income tax expense has been made as per the CICA guidelines. Taxes would have been reduced if an adjustment had been made.

Financing adjustments reflect the benefit or cost to common shareholders of using borrowed funds to finance the purchase of fixed assets during inflationary periods. Although this concept might have certain theoretical validity, it has not received professional acceptance because of its controversial nature. In contrast to financing adjustments the gain in general purchasing power arises due to the fact that during periods of significant inflation the value of the monetary unit declines. Therefore, if the monetary liabilities exceed the monetary assets, as in the case of the Company, a gain will result.

In presenting the supplementary information about the changing prices of 1985 on a comparative basis, the 1984 and 1983 results have been restated in terms of 1985 constant dollars.

STATEMENT OF INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS ON A CURRENT COST BASIS (in thousands)

	1985	1984	1983
Historical income for the year	$22,966	$24,010	$16,577
Less: preferred share dividends	9,881	(4,458)	(493)
Historical cost income attributable to common shareholders	13,085	19,552	16,084
Less: Current cost adjustments			
Depreciation and depletion	(737)	2,586	1,188
Financing	74	(1,060)	(285)
	(663)	1,526	903
Income attributable to common shareholders on a current cost basis	$13,748	$18,026	$15,181

The financing adjustment amounts to $2,139 (1984 — $2,768; 1983 — $10,368) based on the amount of changes during the reporting period in the current cost amounts of oil, gas and mining properties and equipment.

Other Supplementary Information

	1985	1984	1983
Increase in the current cost amounts of oil, gas, and mining properties and equipment due to the effects of general inflation	$21,390	$6,752	$6,976
Gain in general purchasing power from holding net monetary liabilities	$ 2,116	$3,532	$2,939

Schedule of Assets

	Historical Cost	Current Cost
1985		
Oil, gas and mining properties and equipment — net	$446,573	$496,951
Net assets (common shareholders' equity)	$290,917	$344,891
1984		
Oil, gas and mining properties and equipment — net	$431,712	$476,393
Net assets (common shareholders' equity)	$256,262	$310,026
1983		
Oil, gas and mining properties and equipment — net	$ 78,147	$135,961
Net assets (common shareholders' equity)	$102,172	$213,693

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of North Canadian Oils Limited as at December 31, 1985 and 1984 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985 in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Calgary, Canada
February 27, 1986

Touche Ross & Co.
Chartered Accountants

COMMENT ON DIFFERENCES IN CANADIAN - UNITED STATES REPORTING STANDARDS

In the United States, reporting standards require reference in the auditors' report when reliance is being placed on the reports of other auditors who have examined financial statements of subsidiary companies. For 1984, 48.4% of total assets and 0.3% of net income were reported on by other auditors. The auditors' report above is expressed in accordance with Canadian standards which do not require such reference when appropriate communication has been made with the other auditors.

Calgary, Canada
February 27, 1986

Touche Ross & Co.
Chartered Accountants

AUDITORS' REPORT

The Directors
North Canadian Oils Limited

We have examined the consolidated statements of income, retained earnings and changes in financial position for each of the years ended December 31, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of the Company's operations and changes in its financial position for each of the years ended December 31, 1982 and 1981 in accordance with generally accepted accounting principles in Canada (which differ from generally accepted accounting principles in the United States as set out in Note 12 to the consolidated financial statements) applied on a consistent basis.

Calgary, Canada
March 2, 1983

Peat, Marwick, Mitchell & Co.
Chartered Accountants

BANKENO MINES LIMITED

CONSOLIDATED BALANCE SHEET
(thousands of Canadian dollars)

ASSETS

	March 31 1986 (unaudited)	December 31 1985	December 31 1984 (Restated)
CURRENT ASSETS			
Accounts receivable	$ 20,690	$ 18,991	$ 19,622
Prepaid expenses	484	447	408
	21,174	19,438	20,030
INVESTMENTS (Note 4)	11,799	11,714	11,284
PROPERTY, PLANT AND EQUIPMENT ("Full Cost" Notes 1 and 5)	297,821	297,749	295,037
DEFERRED FOREIGN EXCHANGE	624	700	574
	$ 331,418	$ 329,601	$ 326,925

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$ 27,607	$ 22,198	$ 28,390
Current portion of deferred revenue	3,097	2,912	2,812
Current maturities of long-term debt	7,073	6,701	5,119
	37,777	31,811	36,321
DEFERRED REVENUE (Note 6)	21,938	24,506	27,725
LONG-TERM DEBT (Note 7)			
Loan from affiliate	36,500	13,000	60,000
Other	52,136	81,290	45,609
	88,636	94,290	105,609
DEFERRED INCOME AND RESOURCE TAXES (Note 10)	37,459	34,684	26,735
MINORITY INTEREST (Notes 2 and 8)	57,971	57,158	42,754
SHAREHOLDERS' EQUITY			
Share capital (Note 9)			
Issued and outstanding 28,270,721 shares	244,999	244,999	244,999
Deficit	(157,362)	(157,847)	(157,218)
	87,637	87,152	87,781
CONTINGENCY (Note 12)			
	$ 331,418	$ 329,601	$ 326,925

On behalf of the Board

"Norman R. Gish" Director

"David W. Kerr" Director

BANKENO MINES LIMITED

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31			
	1986	1985	1985	1984	1983	1982
	(unaudited)				(Restated)	(Restated)
REVENUE						
Sales of petroleum and natural gas	$23,816	$25,014	$90,156	$92,536	$ 83,043	$68,316
Less royalties	5,461	5,428	20,982	22,655	19,722	16,876
	18,355	19,586	69,174	69,881	63,321	51,440
EXPENSES						
Operating	3,033	3,194	15,120	12,470	12,258	8,413
Administrative	1,282	1,440	4,996	8,145	7,218	7,639
Interest on long-term debt	2,698	2,894	11,095	13,074	12,710	15,763
Depreciation and depletion	6,192	5,607	22,820	21,510	30,284	26,454
	13,205	13,135	54,031	55,199	62,470	58,269
Income (loss) before undernoted items	5,150	6,451	15,143	14,682	851	(6,829)
Income and resource taxes						
Deferred income tax (Note 10)	2,018	2,190	6,864	3,688	3,630	1,110
Alberta royalty tax credit	(673)	(758)	(2,559)	(2,756)	(4,770)	(3,735)
Petroleum and gas revenue tax	1,651	2,188	7,203	7,956	6,100	4,888
	2,996	3,620	11,508	8,888	4,960	2,263
Minority interest	1,669	1,431	4,264	3,745	3,443	(8,379)
	4,665	5,051	15,772	12,633	8,403	(6,116)
Earnings (loss) before unusual item	485	1,400	(629)	2,049	(7,552)	(713)
Unusual item						
Provision for impairment of property, plant and equipment (Note 5)	—	—	—	—	153,700	—
NET EARNINGS (LOSS)	$ 485	$ 1,400	$ (629)	$ 2,049	$(161,252)	$ (713)
Net earnings (loss) Per common share	$.02	$.05	$(.02)	$.07	$(5.72)	$(.03)
Weighted average number of common shares outstanding (thousands)	28,271	28,271	28,271	28,271	28,171	23,155

BANKENO MINES LIMITED

CONSOLIDATED STATEMENT OF DEFICIT (RETAINED EARNINGS)
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)			(Restated)	(Restated)	(Restated)	
DEFICIT (RETAINED EARNINGS AT BEGINNING OF PERIOD)							
As previously reported	$168,429	$167,800	$167,800	$169,209	$ 6,695	$(2,698)	$(2,698)
Retroactive change in accounting policy (Note 2)	—	—	—	184	146	—	—
Settlement of prior years' lawsuits (Note 2)	—	—	—	456	456	—	—
Correction of prior years' accounting errors (Note 2)	(10,582)	(10,582)	(10,582)	(10,582)	(9,282)	—	—
As restated	157,847	157,218	157,218	159,267	(1,985)	(2,698)	(2,698)
Net (earnings) loss	(485)	(1,400)	629	(2,049)	161,252	713	—
DEFICIT (RETAINED EARNINGS) AT END OF PERIOD	$157,362	$155,818	$157,847	$157,218	$159,267	$(1,985)	$(2,698)

CONSOLIDATED STATEMENT OF DEFERRED ADMINISTRATION EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 1981
(thousands of Canadian dollars)

Expenditures	
Administration fees	$ 100
Professional fees	25
Shareholders' reports, transfer and listing fees	52
Travel and general	63
	240
Interest income	1,339
Net decrease	1,099
Balance at beginning of year	1,136
BALANCE AT END OF YEAR	$ 37

CONSOLIDATED STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 1981
(thousands of Canadian dollars)

Expenditures	
Exploration costs	$ 64
Balance at beginning of year	352
BALANCE AT END OF YEAR	$416

BANKENO MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)				(Restated)	(Restated)	
SOURCE OF FUNDS							
Operations (Note 14)	$11,017	$10,612	$34,273	$ 31,835	$29,875	$ 18,757	$ —
Increase in long-term debt	—	1,538	35,686	—	—	—	—
Reduction in current maturities of long-term debt	—	—	—	11,111	—	—	—
Loan from affiliate	—	—	—	60,000	—	—	—
Issue of common shares	—	271	—	200	—	240,737	—
Decrease in deferred revenue	529	962	(307)	(234)	4,150	18,749	—
Decrease in deferred expenditures	—	—	—	—	—	179	—
Sale of property, plant and equipment	170	—	—	176	7,389	1,300	—
Issue of common shares by subsidiary	—	—	925	1,058	1,482	1,148	—
Issue of preferred shares by subsidiary	—	—	12,341	—	—	—	—
Interest credited to deferred administration expenditures	—	—	—	—	—	—	1,339
	$11,716	$13,383	$82,918	$104,146	$42,896	$280,870	$1,339
DISPOSITION OF FUNDS							
Purchase of property, plant and equipment	$ 7,651	$ 8,725	$29,098	$ 33,086	$33,624	$ 45,542	$ —
Less Petroleum Incentives Program grants	1,355	941	3,182	3,390	7,749	6,310	—
	6,296	7,784	25,916	29,696	25,875	39,232	—
Acquisition of subsidiaries plus working capital deficiency acquired of $15,769 (Note 3)	—	—	—	—	—	258,206	—
Repayment of long-term debt	5,654	—	—	61,981	8,067	9,522	—
Repayment of loan from affiliate	—	—	47,000	—	—	—	—
Dividends paid by subsidiary	856	624	3,126	2,496	2,528	1,872	—
Current portion of deferred revenue	3,097	2,778	2,912	2,812	1,120	—	—
Increase in investments	43	80	46	268	515	7,216	234
Deferred administration and development expenditures	—	—	—	—	—	—	304
Deferred charges relating to the offer for the common and preferred shares of Merland Explorations Limited	—	—	—	—	—	—	207
(Decrease) increase in working capital	(4,230)	2,117	3,918	6,893	4,791	(35,178)	594
	$11,716	$13,383	$82,918	$104,146	$42,896	$280,870	$1,339

BANKENO MINES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)				(Restated)	(Restated)	
CHANGES IN COMPONENTS OF WORKING CAPITAL							
(Decrease) increase in current assets							
Cash and term deposits	$ —	$ —	$ —	$ —	$ —	$ (7,652)	$943
Accounts receivable	1,699	(1,751)	(631)	(898)	(8,580)	29,057	(94)
Prepaid expenses	37	(24)	39	58	(195)	545	—
	1,736	(1,775)	(592)	(840)	(8,775)	21,950	849
(Decrease) increase in current liabilities							
Demand bank loans	—	—	—	(5,218)	2,760	2,458	—
Accounts payable and accrued liabilities	5,409	31	(6,192)	6,092	(19,608)	41,414	255
Current portion of deferred revenue	185	(34)	100	1,692	1,120	—	—
Current maturities of long-term debt	372	345	1,582	(10,299)	2,162	13,256	—
	5,966	342	(4,510)	(7,733)	(13,566)	57,128	255
INCREASE (DECREASE) IN WORKING CAPITAL	$(4,230)	$2,117	$ 3,918	$ 6,893	$ 4,791	$(35,178)	$594

BANKENO MINES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) *Principles of consolidation and financial presentation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bankeno Resources Ltd. ("Resources") and Leaside Resources, Inc. ("Leaside") and its 53% owned subsidiary, Merland Explorations Limited ("Merland").

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada which are in accordance with generally accepted accounting principles in the United States except as set out in Note 13.

b) *Investments*

Investments are recorded at cost.

The investment in Panarctic Oils Ltd. represents the accumulated costs of common shares purchased less the proceeds from the partial disposition of the shares and the proceeds from grants received pursuant to the Petroleum Incentives Program.

The investment in mining property represents the cost of the royalty interest, directly associated interest and other expenditures incurred. Expenditures capitalized include administrative and development costs incurred prior to the time the Company converted its investment to a royalty interest in March 1982. Depletion of the accumulated cost of the investment will be recognized when revenues commence.

c) *Property, plant and equipment*

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenditures, under which all costs related to the exploration and development of petroleum and natural gas reserves are capitalized recognizing a North American cost centre. Capitalized costs include those related to lease acquistions, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells and overhead related to exploration and development.

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon estimated proven reserves before royalties, converted to a common unit of measure using relative energy content. Other equipment is depreciated at rates of 5% to 30% calculated on a declining balance basis.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated present value of future net revenues from production of proven reserves at current prices and costs, plus the estimated fair market value of unevaluated properties.

d) *Foreign currency translation*

The Company's U.S. subsidiaries are accounted for as integrated operations. Monetary assets and liabilities in foreign currencies are translated at year-end rates with non-monetary assets and liabilities translated at rates prevailing at the transaction dates. Revenues and expenses (other than depletion and depreciation which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current period except those relating to long-term debt which are deferred and amortized over the life of the debt.

e) *Joint interest operations*

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities. Since 1983 all significant operations have been located in Canada.

f) *Income tax*

The Company follows the deferral method of tax allocation accounting under which the income tax provision is based on the income reported in the financial statements. Under this method, the Company makes full provision for income tax deferred principally as a result of claiming capital cost allowance and exploration and development costs in excess of depreciation and depletion provided in the financial statements.

2. RETROACTIVE AND PRIOR PERIOD ADJUSTMENTS

a) *Change in accounting policy*

In 1984, the Company retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation. The effect of this change is to translate long-term debt repayable in foreign currency at the rate of exchange prevailing at the balance sheet date. The resulting exchange loss is deferred and amortized over the life of the related debt. As a result of the change, long-term debt was increased and the foreign exchange loss (net of income taxes and minority interest) was deferred, resulting in the deficit increasing at December 31, 1983 by $184,000 with $38,000 of this amount applicable to 1983 and the balance being applicable to 1982.

b) *Correction of prior years' accounting errors*

In 1982 the Company's subsidiary Merland Explorations Limited ("Merland") wrote-down the carrying value of its United States petroleum and natural gas properties to their estimated recoverable value. On preparation of the consolidated financial statements for the Company in 1982 this write-down was reversed as a result of the Company following the practice of accumulating its petroleum and natural gas costs in a North American pool rather than separate country by country pools which was followed by Merland.

However, in error, in 1982 the Company failed to record the Minority Interest's share of the write-down in the subsidiary. Accordingly, the Minority Interest share of the loss in the subsidiary as shown on the statement of earnings in 1982 has been increased by $9,300,000 with the corresponding reduction in the Minority Interest's share in the carrying value of the net assets of the subsidiary.

In addition, during 1982, 1983 and 1984, Merland issued shares under share option agreements and share purchase plans to key employees. These issues increase the proportionate interest of the minority shareholders and for accounting purposes are effectively treated as a disposition of petroleum and natural gas properties. The Company failed to record the accounting effect of these issues in each of the years. Consequently, the following amounts have been credited to the carrying value of the petroleum and natural gas assets on the balance sheet: 1982 — $135,000, 1983 — $1,165,000 and 1984 — $387,000.

As the adjustment for 1982 and 1983 preceded the write-down of the carrying cost of the Company's petroleum and natural gas properties in 1983, the write-down previously recorded has been reduced by $1,300,000.

c) *Settlement of prior years' lawsuits*

During 1984, Merland settled certain legal actions originating in prior years in the amount of $456,000 (net of deferred income taxes and minority interest).

3. ACQUISITION OF SUBSIDIARY COMPANIES

On March 17, 1982, the Company acquired 11,204,974 common shares and 56,030 preferred shares of Merland, representing 55.5% and 4.3% interest respectively of Merland's total issued and then outstanding shares. Of the total common shares acquired, 10,074,687 shares were acquired from Turbo Resources Limited ("Turbo"), the Company's parent corporation until September 28, 1984.

Immediately following the acquisition of the Merland shares, the Company acquired from Turbo all of the issued and outstanding shares of Resources and Leaside.

The acquisitions have been accounted for by the purchase method with the results of operations included in these financial statements from March 17, 1982. Details of the acquisitions are as follows:

	Merland	Resources	Leaside	Total
Book values of acquired assets	$ 242,230	$63,741	$ 8,611	$ 314,582
Book values of assumed liabilities	169,377	4,739	—	174,116
	72,853	59,002	8,611	140,466
Excess of attributed values of acquired net assets assigned to petroleum and natural gas properties	124,959	—	25,833	150,792
Net assets acquired at attributed values	197,812	59,002	34,444	291,258
Minority interest	48,821	—	—	48,821
Cost of acquisitions	$ 148,991	$59,002	$34,444	$ 242,437
Net assets, acquired at attributed values, consist of				
Property, plant and equipment	$ 349,372	$59,002	$34,444	$ 442,818
Advances on natural gas sales contracts	(8,871)	(121)	—	(8,992)
Long-term debt	(109,644)	—	—	(109,644)
Deferred income taxes	(17,155)	—	—	(17,155)
Minority interest	(48,821)	—	—	(48,821)
	164,881	58,881	34,444	258,206
Working capital				
Current assets	17,817	4,739	—	22,556
Current liabilities	(33,707)	(4,618)	—	(38,325)
	(15,890)	121	—	(15,769)
	$ 148,991	$59,002	$34,444	$ 242,437

As consideration for the Merland shares acquired, the Company issued 11,330,089 Bankeno units and incurred out-of-pocket costs of $1,700,000. Each unit consisted of 1.4 Bankeno common shares (1.3 issued from treasury and .1 contributed by Turbo) and one Bankeno warrant. Of the total units issued, 10,074,687 units were issued to Turbo.

As consideration for the Resources and Leaside shares acquired, the Company issued to Turbo, 5,900,200 and 3,444,400 shares respectively.

4. INVESTMENTS

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(thousands of dollars)	
Panarctic Oils Ltd.	$ 2,767	$ 2,724	$ 2,678
Mining property	9,032	8,990	8,606
	$11,799	$11,714	$11,284

At December 31, 1985, the Company holds a 1.38% interest in Panarctic Oils Ltd. Panarctic was formed to explore the oil and gas potential in the Arctic Islands with joint funding from private enterprises and Petro-Canada Exploration Inc.

The Company holds a 25% royalty interest after payout in the net proceeds of production from the Polaris mine and from any future mines on Little Cornwallis Island. Operations from the Polaris mine commenced in 1982 and it is currently estimated that the Company will recognize revenue from its royalty interest commencing in 1991.

5. PROPERTY, PLANT AND EQUIPMENT

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(thousands of dollars)	(Restated)
Oil and gas properties and production equipment	$496,119	$489,541	$464,305
Other equipment	3,148	3,462	3,170
	499,267	493,003	467,475
Less accumulated depreciation and depletion	201,446	195,254	172,438
	$297,821	$297,749	$295,037

In 1983, the Company determined that the combined effect of depressed natural gas and oil prices, reduced natural gas demand and the decline in production profiles necessitated a reduction in the carrying value of certain of its natural resource property, plant and equipment. This determination was confirmed by the results of proven reserve studies by independent engineers. The impairment was computed under conditions existing at December 31, 1983 and was based on the aggregate present value, using a 10% discount rate of estimated future net revenues of proven reserves using prices in accordance with the existing Federal/Alberta Government pricing agreements in effect until 1986 with no price increases thereafter, plus the estimated fair value of undeveloped properties. Accordingly, the carrying value of the oil and gas assets was reduced by $153,700,000 which included $57,896,000 attributable to United States' properties.

6. DEFERRED REVENUE

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments were received principally by the Company in respect of annual contract gas volumes not taken by the purchaser. Beginning in November 1984 the purchaser began to take delivery of the gas and the Company began to recognize revenue related to the gas taken. The purchaser's delivery schedule for the gas will allow recognition after 1986 of $24,506,000 of revenue over 8 years with $2,800,000 annually in 1986 through 1988, $3,400,000 annually in 1989 through 1993 and $1,906,000 in 1994.

7. LONG-TERM DEBT

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(thousands of dollars)	
Revolving loans			
Canadian	$67,868	$ 71,748	$ 77,158
United States (1985 — $5,000 U.S.; 1984 — $5,000 U.S.)	6,987	6,988	6,607
	74,855	78,736	83,765
Income debentures			
Canadian	11,000	12,000	15,500
United States (1985 — $4,200 U.S.; 1984 — $5,425 U.S.)	5,380	5,869	7,396
	16,380	17,869	22,896
Mining loan payable	4,474	4,386	4,067
	95,709	100,991	110,728
Less current portion of long-term debt	7,073	6,701	5,119
	$88,636	$ 94,290	$105,609

The revolving loans at December 31, 1985 consist of $13,000,000 (1984 — $60,000,000; March 31, 1986 — $36,500,000) from an affiliate with the remainder from a Canadian Chartered bank, bear interest at rates approximating the Canadian bank prime rate and

have no fixed repayment terms. At December 31, 1984, accounts payable includes approximately $1,300,000 of interest payable on the revolving loan, from an affiliate, which was paid subsequent to year-end.

The income debentures have a final maturity date of June, 1988, with quarterly principal repayments. Principal repayments by year are as follows:

Year	Canadian dollars	United States dollars
1986	$ 4,500,000	$1,575,000
1987	5,000,000	1,750,000
1988	2,500,000	875,000
	$12,000,000	$4,200,000

The income debentures bear interest at one half of the bank's prime lending rates plus 1⅛% to maturity and are secured by certain of the Company's producing petroleum and natural gas properties.

The mining loan payable bears interest at the bank prime rate and will be repaid to the mine operator from the Company's royalty interest as described in Note 4. Accrued interest is repaid first with any residual royalty revenue to reduce the $3,000,000 principal portion of the loan. Based on estimated production, mineral prices and interest rates, principal repayments of $400,000 in 1991, $600,000 in 1992, $600,000 in 1993, $1,300,000 in 1994 and $100,000 in 1995 are expected.

Interest costs of $384,000 in 1985 (1984 — $377,000; 1983 — $339,000; 1982 — $382,000 and 1981 — $ Nil) are capitalized as part of the investment in mining property.

8. MINORITY INTEREST

Minority interest at March 31, 1986 and December 31, 1985 includes $43,534,950 (1984 — $31,193,950) of preferred shares of Merland which are entitled to cumulative dividends of $856,000 at March 31, 1986 (1985 — $3,126,000; 1984 — $2,496,000).

9. SHARE CAPITAL

The Company is authorized to issue 50,000,000 First Preferred Shares issuable in series with a par value of $10 each and 100,000,000 common shares.

In 1984, 100,000 common shares were issued under exercise of share options. The Company has issued 15,427,093 warrants entitling the holder to purchase one common share for $9.00 up to March 17, 1986.

10. DEFERRED INCOME TAX

The years' provisions for deferred income tax differ from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rates (1985 — 48.0%; 1984 — 47.9%; 1983 — 47.9%; 1982 — 48.8%) to the earnings (loss) before unusual item, minority interest and deferred income tax. The difference results from the following items (in thousands):

	1985	1984	1983 (Restated)	1982 (Restated)
Computed expected tax	$ 5,040	$ 4,542	$ (229)	$(3,895)
Increase (decrease) in deferred income tax resulting from				
Effect of subsidiaries and consolidation	1,366	(608)	5,967	5,452
Royalties and other payments to provincial governments	5,847	6,281	5,161	4,141
Petroleum and gas revenue tax	3,457	3,811	2,922	2,384
Interest on income debentures	655	878	935	966
Federal resource allowance	(7,475)	(8,060)	(7,192)	(5,455)
Alberta royalty tax credit	(1,229)	(1,320)	(2,284)	(1,822)
Earned depletion on Canadian production revenue	(1,819)	(2,280)	(1,727)	(611)
Other	1,022	444	77	(50)
Deferred income taxes	$ 6,864	$ 3,688	$ 3,630	$ 1,110

The provision for impairment in 1983 of $153,700,000 related to the excess purchase price paid on acquisition of Merland and Leaside and consequently has no tax effect.

As at December 31, 1985, Merland's United States subsidiaries have accumulated losses of approximately $24,500,000 U.S. the potential future income tax benefits of which have not been recognized in these financial statements. The ability to realize these benefits expires in intervals over the years 1995 to 2000.

Deferred income taxes arise from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which gave rise to such timing differences, and the amount of deferred income taxes attributable thereto, are as follows:

	1985	1984	1983	1982
		(thousands of dollars)		
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the accounts	$ (625)	$(2,793)	$(1,757)	$(1,164)
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded in the accounts	7,489	6,481	5,387	2,580
Application of income tax loss	—	—	—	(306)
Total deferred income taxes	$6,864	$ 3,688	$ 3,630	$ 1,110

11. RELATED PARTY TRANSACTIONS

During 1985, the Company paid management fees to a shareholder company in the amount of $550,000. The Company also paid interest to an affiliate company in the amount of $4,568,000. The principal amount of loans outstanding at December 31, 1985 to an affiliate company was $13,000,000. (March 31, 1986 — $36,500,000.)

During 1982, the Company received interest from Turbo Resources Limited ("Turbo"), a former major shareholder of the Company, in the amount of $245,474 (1981 — $122,133). The Company also paid management fees to Turbo in 1982 in the amount of $151,250 (1981 — $100,000).

Until October 31, 1982, Turbo provided treasury services to the Company, Resources and Leaside in respect of payment and collection of accounts. As at December 31, 1982, an amount of $3,656,269 (1981 — $370,202) was due to Turbo and affiliated companies for the net effect of treasury transactions as well as liabilities of Resources relating to the purchase of working capital, principally accounts receivable.

12. CONTINGENCY

a) The Company is a defendant in an action by certain of its minority shareholders claiming that the 1982 acquisition of Merland, Leaside and Resources caused substantial dilution and loss of value of their shareholdings.

The Company is not able to determine the outcome of the foregoing action and accordingly, is not able to estimate the effect, if any, on earnings, deficit or on the reclassification of assets which may result from settlement in the plaintiffs' favour.

b) Commitments and contingencies exist under agreements and operations in the normal course of business, the total amount of which in the opinion of management would not be significant to the financial position of the Company.

13. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada which differ from generally accepted accounting principles in the United States. The differences in accounting principles which have a significant effect on the Company's statement of earnings are that the settlement of certain contingencies would be expensed in 1984 rather than restating prior years, deferred foreign exchange losses would be expensed in the year incurred, capitalized workover costs would be expensed as period costs, and depletion and depreciation would be provided for on a country-by-country basis rather than on a North American cost centre.

The Securities and Exchange Commission also requires that a ceiling test be prepared each year to ensure that costs of property, plant and equipment do not exceed the estimated present value of future net revenues from production of proven reserves, using constant prices and a 10% discount rate, plus the estimated fair market value of unevaluated properties.

In addition, in 1981, the Company was a development stage company that under Canadian generally accepted accounting practices, deferred all income and expenditures. Under United States generally accepted accounting principles these revenues and costs would be taken into income in the year.

The effects of the difference are as follows:

	Three Months Ended March 31		Year Ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)				(Restated)	(Restated)	
Net earnings (loss) as reported	$ 485	$1,400	$ (629)	$ 2,049	$(161,252)	$ (713)	$ —
Adjustments, net of applicable income taxes and minority interest							
Settlement of contingencies	—	—	—	(456)	—	456	—
Deferred foreign exchange	76	(292)	(126)	(155)	6	(160)	—
Workover costs	(375)	(93)	(461)	(376)	(220)	—	—
Depreciation and depletion	—	—	—	—	3,240	(5,991)	—
Write down of oil and gas properties	—	—	—	(2,300)	47,125	(45,361)	—
Interest income and administrative expenditures	—	—	—	—	—	—	1,099
Net earnings (loss) as adjusted	$186	$1,015	$(1,216)	$(1,238)	$(111,101)	$(51,769)	$1,099
Earnings (loss) per common share, as adjusted	$0.01	$ 0.04	$ (0.04)	$ (0.04)	$ (3.91)	$ (2.23)	$ 0.27

14. WORKING CAPITAL PROVIDED FROM OPERATIONS (Thousands of Dollars)

	Three Months Ended March 31		Year Ended December 31			
	1986	1985	1985	1984	1983	1982
	(unaudited)				(Restated)	(Restated)
Earnings (loss) before unusual item	$ 485	$ 1,400	$ (629)	$ 2,049	$ (7,552)	$ (713)
Add items not affecting working capital						
Depletion and depreciation	6,192	5,607	22,820	21,510	30,284	26,454
Deferred income taxes	2,018	2,190	6,864	3,688	3,630	1,110
Deferred petroleum and gas revenue tax	763	—	1,135	—	—	—
Minority interest	1,669	1,431	4,264	3,745	3,443	(8,379)
Amortization of deferred foreign exchange	(76)	—	(126)	288	38	146
Other	(34)	(16)	(55)	555	32	139
	$11,017	$10,612	$34,273	$31,835	$ 29,875	$ 18,757

15. SUBSEQUENT EVENTS

In May 1986, the Company purchased 506,910 common shares (representing a 30% voting interest) of 142433 Canada Ltd. for $5,069,100 and sold to this company for cash consideration of $16,569,000 (book value $16,569,000) all its investment in preferred shares, series A and B of Merland.

BANKENO MINES LIMITED

SUPPLEMENTAL INFORMATION

DISCLOSURE OF OIL AND GAS PRODUCTION ACTIVITIES AS REQUIRED BY STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 69

FOR THE YEARS ENDED DECEMBER 31, 1985, 1984 and 1983

(all tabular amounts in thousands of Canadian dollars) (unaudited)

a) Capitalized Costs Relating to Oil and Gas Producing Activities

At December 31, 1985 and 1984 there were no significant capitalized costs relating to unproved oil and gas properties.

Costs incurred in oil and gas property acquisition, exploration and development activities for the years ended December 31:

	1985	1984	1983
		(in thousands)	
Acquisition of properties	$ 5,702	$ 7,603	$ 8,314
Exploration	6,054	8,079	3,881
Development	14,495	14,548	13,430

b) Results of Operations for Producing Activities Ended December 31:

	1985	1984	1983
		(in thousands)	
Revenue			
Sales	$69,174	$69,881	$ 63,321
Production costs	15,120	12,470	12,258
Depreciation and depletion	22,820	21,510	26,603
Provision for impairment of property, plant and equipment	—	2,300	106,575
	37,940	36,280	145,436
Income (loss) before taxes	31,234	33,601	(82,115)
Income and resource taxes	15,365	18,124	4,960
Results of operations from producing activities (excluding corporate overhead and interest costs)	$15,869	$15,477	$ (87,075)

c) Quantities of oil and gas reserves as at December 31 (unaudited)

	1985		1984		1983	
	Oil	Gas	Oil	Gas	Oil	Gas
Proved reserves						
Beginning of year	3,266	456.7	2,579	451.7	2,151	440.6
Revision of previous estimates	(511)	.3	719	5.0	195	(1.7)
Improved recovery	—	—	—	—	—	—
Purchase of minerals-in-place	—	—	—	—	82	6.1
Extensions and discoveries	787	21.9	396	28	811	33.7
Production	(502)	(27.7)	(428)	(28)	(421)	(26.4)
Sale of minerals-in-place	—	—	—	—	(239)	(.6)
	3,040	451.2	3,266	456.7	2,579	451.7
Proved developed reserves						
Beginning of year	3,259	424.6	2,488	419.8	2,437	412.3
End of year	2,777	414.3	3,259	424.6	2,488	419.8

i) Oil is stated in thousands of barrels and gas is stated in billion cubic feet.

ii) There are no long-term supply agreements with foreign governments or any significant foreign geographic reserves.

iii) The Company's consolidated year-end reserves include 100% of those of its 53% owned subsidiary, Merland Explorations Limited, whose reserves account for approximately 91% of the consolidated total at December 31, 1985.

d) Standard measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves at December 31 (unaudited)

	1985	1984	1983
		(in thousands)	
Future cash inflows	$968,727	$951,687	$942,284
Future production and development costs	281,318	273,392	272,140
Future income tax expenses	198,578	226,975	223,133
Future net cash flows	488,831	451,320	447,011
10% annual discount for estimated timing of cash flows	243,591	224,361	216,576
Standardized measure of discounted net cash flow	$245,240	$226,959	$230,435

i) Future net cash flows were computed using year-end prices and costs and year-end statutory tax rates.

ii) Merland's contribution to the consolidated standardized measure of discounted future net cash flows accounts for approximately 85% of the total.

iii) There are no significant future net cash flows from foreign geographic areas.

e) The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	1985	1984	1983
		(in thousands)	
Sales and transfers of oil and gas produced, net of production cost	$(54,054)	$(57,411)	$(51,063)
Net changes in prices and production costs	(33,833)	(19,333)	(62,104)
Purchase of minerals-in-place	—	—	—
Extensions, discoveries, and improved recovery, less related costs	24,239	21,542	38,173
Development costs incurred during period	14,495	14,548	(13,430)
Net change in development costs	(18,331)	—	—
Accretion of discount	22,696	23,044	25,493
Net changes in income taxes	28,397	(3,842)	53,401
Other	34,672	17,976	(14,967)
	$ 18,281	$ (3,476)	$ 24,497

Amortization per equivalent physical unit of production (Mcf):

	1985	1984	1983
Depreciation and depletion	$0.70	$0.72	$1.03

AUDITORS' REPORT

To the Directors of
Bankeno Mines Limited

We have examined the consolidated balance sheet of Bankeno Mines Limited as at December 31, 1984, and the consolidated statements of earnings (loss), deficit (retained earnings) and changes in financial position for the years ended December 31, 1984, 1983 and 1982 and consolidated statements of deferred administration expenditures and deferred development expenditures for the year ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for each of the four years in the period ended December 31, 1984 in accordance with accounting principles generally accepted in Canada (Notes 1 and 13) applied on a consistent basis, after giving retroactive effect to the change, with which we concur, in the method of accounting for foreign currency translation, as explained in Note 2 to the consolidated financial statements.

Calgary, Alberta
February 20, 1985

Deloitte Haskins + Sells
Chartered Accountants

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the consolidated financial statements are affected by a significant uncertainty such as that described in Note 12(a) to the consolidated financial statements. The opinion in our report to the directors dated February 20, 1985, is not qualified with respect to, and provides no reference to this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainty is adequately disclosed in the financial statements.

Calgary, Alberta
February 20, 1985

Deloitte Haskins + Sells
Chartered Accountants

AUDITORS' REPORT

The Shareholders
Bankeno Mines Limited

We have examined the consolidated balance sheet of Bankeno Mines Limited as at December 31, 1985 and the consolidated statements of earnings (loss), deficit (retained earnings) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada (which differ from generally accepted accounting principles in the United States as set out in Note 13) applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 27, 1986 (May 9, 1986
as to Note 15)

Touche Ross & Co.
Chartered Accountants

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the consolidated financial statements are affected by a significant uncertainty such as that described in Note 12(a) to the consolidated financial statements. The opinion in our report to the shareholders' dated February 27, 1986 (May 9, 1986 as to Note 15), is not qualified with respect to, and provides no reference to this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainty is adequately disclosed in the financial statements.

Calgary, Alberta
February 27, 1986 (May 9, 1986
as to Note 15)

Touche Ross & Co.
Chartered Accountants

MERLAND EXPLORATION LIMITED

CONSOLIDATED BALANCE SHEET
(thousands of Canadian dollars)

ASSETS

	March 31 1986	December 31 1985	December 31 1984
	(unaudited)		
CURRENT ASSETS			
Accounts receivable	$ 24,465	$ 15,435	$ 16,594
Prepaid expenses	411	398	357
	24,876	15,833	16,951
PROPERTY, PLANT AND EQUIPMENT ("Full Cost", Note 3)	226,712	234,131	229,317
DEFERRED FOREIGN EXCHANGE	624	700	574
	$252,212	$250,664	$246,842

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$ 24,160	$ 20,191	$ 26,301
Current portion of deferred revenue	3,075	2,880	2,780
Current maturities of long-term debt	7,073	6,701	5,119
	34,308	29,772	34,200
DEFERRED REVENUE (Note 4)	21,739	24,272	27,433
LONG-TERM DEBT (Note 5)			
Loan from affiliate	25,000	—	60,000
Other	47,662	76,904	41,315
	72,662	76,904	101,315
DEFERRED INCOME AND RESOURCE TAXES	35,347	32,907	26,398
SHAREHOLDERS' EQUITY			
Share Capital (Note 6)			
Preferred	60,104	60,104	32,595
Common — 20,977,154 shares (1985 — 21,152,154; 1984 — 20,914,763)	32,351	32,351	32,080
	92,455	92,455	64,675
Deficit	(4,299)	(5,646)	(7,179)
	88,156	86,809	57,496
	$252,212	$250,664	$246,842

On behalf of the Board:

"Norman R. Gish" Director

"David W. Kerr" Director

MERLAND EXPLORATIONS LIMITED

CONSOLIDATED STATEMENT OF EARNINGS
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
REVENUE							
Sales of petroleum and natural gas	$21,820	$23,351	$80,625	$83,195	$ 72,982	$75,979	$53,262
Less royalties	4,979	4997	19,081	20,551	18,045	20,075	15,227
	16,841	18,354	61,544	62,644	54,937	55,904	38,035
EXPENSES							
Production	2,833	2,963	13,531	11,020	9,815	9,576	5,825
General and administrative	1,175	1,458	3,721	5,463	3,640	4,808	4,151
Interest on long-term debt	2,213	2,884	10,002	13,031	12,587	18,738	11,455
Depletion and depreciation	5,425	5,307	18,692	17,896	15,743	17,019	11,603
	11,646	12,612	45,946	47,410	41,785	50,141	33,034
EARNINGS BEFORE TAXES FROM CONTINUING OPERATIONS	5,195	5,742	15,598	15,234	13,152	5,763	5,001
INCOME AND RESOURCE TAXES							
Deferred income tax (Note 7)	1,676	1,803	5,471	4,792	3,590	1,699	3,503
Alberta royalty tax credit	(500)	(500)	(2,000)	(2,000)	(4,007)	(4,670)	(1,333)
Petroleum and gas revenue tax	1,504	2,086	6,596	7,106	5,584	5,960	3,113
	2,680	3,389	10,067	9,898	5,167	2,989	5,283
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	2,515	2,353	5,531	5,336	7,985	2,774	(282)
DISCONTINUED OPERATIONS (Note 2)							
Loss from United States operations	—	—	—	—	(3,387)	(1,441)	(1,666)
Provision for impairment of United States property, plant and equipment	—	—	—	—	—	(21,800)	—
	—	—	—	—	(3,387)	(23,241)	(1,666)
NET EARNINGS (LOSS)	$ 2,515	$ 2,353	$5,531	$5,336	$ 4,598	$(20,467)	$ (1,948)
NET EARNINGS (LOSS) PER COMMON SHARE (dollars)	$ .06	$ .08	$ .07	$ .13	$ .10	$ (1.13)	$ (0.27)

MERLAND EXPLORATIONS LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
(thousands of Canadian dollars)

	Three Months ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF PERIOD	$(5,646)	$(7,179)	$(7,179)	$(9,907)	$(11,897)	$ 11,541	$17,053
NET EARNINGS (LOSS)	2,515	2,353	5,531	5,336	4,598	(20,467)	(1,948)
	(3,131)	(4,826)	(1,648)	(4,571)	(7,299)	(8,926)	15,105
Preferred share dividends	(1,168)	(652)	(3,998)	(2,608)	(2,608)	(2,608)	(3,564)
Common shares purchased for cancellation	—	—	—	—	—	(363)	—
RETAINED EARNINGS (DEFICIT) AT END OF PERIOD	$(4,299)	$(5,478)	$(5,646)	$(7,179)	$(9,907)	$(11,897)	$11,541

MERLAND EXPLORATIONS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of Canadian dollars)

	Three Months Ended March 31		Years ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)				(Restated)	(Restated)	
SOURCE OF FUNDS							
Operations (Note 10)	$10,454	$9,606	$31,306	$ 28,538	$27,073	$ 22,370	$ 15,576
Reduction in current maturities of long-term debt	—	—	—	11,111	—	—	—
Issue of common shares	—	271	271	1,058	1,482	2,108	1,692
Issue of preferred shares	—	—	27,509	—	—	—	—
Borrowing from affiliate	—	—	—	60,000	—	—	—
Borrowing of long term debt	—	—	34,889	—	—	4,648	79,841
Deferred revenue	—	—	—	(260)	4,064	18,658	2,239
Sale of property, plant and equipment	8,236	—	—	176	5,918	—	1,517
Repayment of promissory note	—	—	—	—	—	430	—
	$18,690	$9,877	$93,975	$100,623	$38,537	$ 48,214	$100,865
DISPOSITION OF FUNDS							
Purchase of property, plant and equipment	$ 7,597	$ 7,770	$26,431	$29,601	$31,142	$ 59,747	$126,597
Less Petroleum Incentives Program grants	1,357	941	2,925	3,007	7,325	7,704	3,226
	6,240	6,829	23,506	26,594	23,817	52,043	123,371
Repayment of loan from affiliate		—	60,000	—	—	—	—
Repayment of long-term debt	4,242	2,300	—	62,338	8,129	4,923	8,333
Preferred share dividends	1,168	652	3,998	2,608	2,608	2,608	3,564
Current portion of deferred revenue	2,533	1,775	3,161	2,780	1,120	—	—
Common shares purchased for cancellation	—	—	—	—	—	363	—
Increase (decrease) in working capital	4,507	(1,679)	3,310	6,303	2,863	(11,723)	(34,403)
	$18,690	$9,877	$93,975	$100,623	$38,537	$ 48,214	$100,865
CHANGES IN COMPONENTS OF WORKING CAPITAL							
Increase (decrease) in current assets							
Accounts receivable	$ 9,030	$ (2,142)	$ (1,159)	$ (763)	$ (8,070)	$ 4,301	$ 12,558
Prepaid expenses	13	(32)	41	23	36	18	94
	9,043	(2,174)	(1,118)	(740)	(8,034)	4,319	12,652
Increase (decrease) in current liabilities							
Demand bank loans	—	—	—	(5,218)	2,760	2,458	—
Accounts payable and accrued liabilities	3,969	(890)	(6,110)	6,814	(16,939)	8,661	38,722
Current portion of deferred revenue	195	(30)	100	1,660	1,120	—	—
Current maturities of long-term debt	372	425	1,582	(10,299)	2,162	4,923	8,333
	4,536	(495)	(4,428)	(7,043)	(10,897)	16,042	47,055
Increase (decrease) in working capital	$ 4,507	$ (1,679)	$ 3,310	$ 6,303	$ 2,863	$(11,723)	$ (34,403)

MERLAND EXPLORATIONS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a) *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

b) *Property, plant and equipment*

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenditures, under which all costs related to the exploration and development of petroleum and natural gas reserves are capitalized recognizing separate Canadian and United States cost centres. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells and overhead related to exploration and development.

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon estimated proven reserves, before royalties, converted to a common unit of measure using relative energy content. Other equipment is depreciated at rates of 5% to 30% calculated on a declining balance basis.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year-end market prices less future administrative, financing and income tax costs.

c) *Foreign currency translation*

Monetary assets and liabilities in foreign currencies are translated at year-end rates with non-monetary assets and liabilities translated at rates prevailing at the transaction dates. Revenues and expenses (other than depletion and depreciation which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current year except those relating to long-term debt which are deferred and amortized over the life of the debt.

d) *Joint interest operations*

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

e) *Income Tax*

The Company follows the deferral method of tax allocation accounting under which the income tax provision is based on the income reported in the financial statements. Under this method, the Company makes full provision for income tax deferred principally as a result of claiming capital cost allowance and exploration and development costs in excess of depletion and depreciation provided in the financial statements.

2. DISCONTINUED OPERATIONS

During 1983, the Company discontinued the operations of its wholly-owned United States subsidiaries and an agreement in principle was reached in December, 1983 to sell all of the Company's United States producing properties and substantially all of the United States non-producing properties.

During 1982, the Company determined that the combined effect of the decline in production profiles, higher than anticipated expenditures and depressed oil prices necessitated a $21,800,000 reduction in the carrying value of the United States' natural resource property, plant and equipment. The impairment was confirmed by the results of reserve studies by independent engineers and was computed under conditions existing at December 31, 1982 using the aggregate of the present value of estimated future net revenues, discounted at 10%, from estimated proven reserves under current production profiles at current prices plus the estimated fair value of undeveloped properties.

3. PROPERTY, PLANT AND EQUIPMENT

	March 31, 1986	December 31	
	unaudited	1985	1984
	(thousands of Canadian dollars)		
Petroleum and natural gas properties	$227,488	$230,049	$215,235
Production equipment and facilities	96,729	95,848	87,063
Other equipment	3,148	3,462	3,554
	327,365	329,359	305,852
Less: Accumulated depletion and depreciation	100,653	95,228	76,535
	$226,712	$234,131	$229,317

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities was provided at a rate of $0.64 (1984 — $0.61; 1983 — $0.58; 1982 — $0.60; 1981 — $0.51) per MCF.

4. DEFERRED REVENUE

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments were received in respect to annual contract gas volumes not taken by the purchaser. In November, 1984 the purchaser began to take delivery of the gas and the Company began to recognize revenue related to the gas taken. The purchaser's delivery schedule for the gas will allow recognition after 1986 of $24,272,000 of revenue over 8 years with $2,800,000 annually in 1987 and 1988, $3,400,000 annually in 1989 through 1993 and $1,672,000 in 1994.

5. LONG-TERM DEBT

	March 31, 1986 (unaudited)	December 31 1985	December 31 1984
		(thousands of Canadian dollars)	
Revolving loans			
Canadian	$56,368	$58,748	$ 77,158
United States (1985 and 1984 — U.S. $5,000)	6,987	6,988	6,607
	63,355	65,736	83,765
Income debentures			
Canadian	11,000	12,000	15,500
United States (1985 — U.S. $4,200; 1984 — U.S. $5,425)	5,380	5,869	7,169
	16,380	17,869	22,669
Total long-term debt	79,735	83,605	106,434
Less current maturities of income debentures	7,073	6,701	5,119
	$72,662	$76,904	$101,315

The revolving loans bear interest at rates approximating the Canadian bank prime rate and have no fixed repayment terms. The March 31, 1986 and the December 31, 1984 amounts include loans from an affiliate of $25,000,000 and $60,000,000 respectively.

The income debentures have a final maturity date of June, 1988, with quarterly principal repayments. Principal repayments by year are as follows:

Year	Canadian Dollars	United States Dollars
1986	$ 4,500,000	$1,575,000
1987	5,000,000	1,750,000
1988	2,500,000	875,000
	$12,000,000	$4,200,000

The income debentures bear interest at one half of the bank prime rate plus 1⅛% to maturity and are secured by certain of the Company's Canadian producing petroleum and natural gas properties.

6. SHARE CAPITAL

Authorized

Preferred shares are authorized as to an unlimited number of shares, issuable in series.

Common shares are authorized as to an unlimited number of shares.

Issued	March 31, 1986 (unaudited)		Year Ended December 31			
			1985		1984	
	Number	Consideration	Number	Consideration	Number	Consideration
Preferred Shares						
Series A						
Balance, ending	1,303,788	$32,595,000	1,303,788	$32,595,000	1,303,788	$32,595,000
Series B						
Balance, ending	1,100,355	27,509,000	1,100,355	27,509,000	—	—
Common shares						
Balance January 1	21,152,154	33,005,000	20,914,763	32,080,000	20,703,364	31,022,000
Issued for cash						
Under employee share purchase plan	—	—	62,391	271,000	207,649	1,038,000
Upon exercise of share options	—	—	—	—	3,750	20,000
Issued (repurchased) under management share purchase plan	(175,000)	(654,000)	175,000	654,000	—	—
Balance, ending	20,977,154	32,351,000	21,152,154	33,005,000	20,914,763	32,080,000
Less: notes receivable (Note 8)		—		654,000		
		32,351,000		32,351,000		32,080,000
		$92,455,000		$92,455,000		$64,675,000

The $2.00 Cumulative Redeemable Convertible First Preferred Shares, Series A are redeemable in whole or in part by the Company prior to December 31, 1986 at $26.25 per share reducing by $0.25 per share annually to $25.00 per share at December 31, 1990 and thereafter. Each preferred share is convertible into common shares of the Company at a price of $12.65 per common share until December 31, 1990.

During 1985 the Company issued 1,100,355 7½% Cumulative Redeemable Convertible First Preferred Shares, Series B which are convertible at any time until June 30, 1990 into 5¼ common shares. In addition, they are redeemable at anytime after the common shares of the Company trade for 20 consecutive days above 120% of the conversion price.

At December 31, 1985 the Company has reserved 8,687,103 common shares for issue upon conversion of preferred shares. In addition, 441,000 common shares have been reserved for issue under options granted to officers and employees at prices varying from $4.40 to $8.44 and expiring up to November 28, 1989.

7. DEFERRED INCOME TAX

The provision for deferred income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 48.2% (1984 — 47.9%; 1983 — 47.9%; 1982 — 48.8%; 1981 — 48.8%) to the earnings from continuing operations before deferred income tax of $11,002,000 (1984 — $10,128,000; 1983 — $11,575,000; 1982 — $4,473,000; 1981 — $3,221,000). This difference results from the following items:

	1985	1984	1983	1982	1981
	(thousands of Canadian dollars)				
Computed expected tax	$ 5,303	$ 4,851	$ 5,544	$ 2,183	$ 1,572
Increase (decrease) in deferred income tax resulting from:					
Royalties and other payments to provincial governments	5,264	5,431	4,560	5,373	5,056
Petroleum and gas revenue tax	3,179	3,404	2,675	2,908	1,519
Interest on income debentures	655	878	935	1,267	1,529
Federal resource allowance	(6,831)	(7,333)	(6,657)	(7,030)	(4,332)
Alberta royalty tax credit	(964)	(958)	(1,919)	(2,279)	(651)
Earned depletion on Canadian production income	(1,819)	(1,919)	(1,626)	(949)	(1,209)
Other	684	438	78	226	19
Deferred income tax provision	$ 5,471	$ 4,792	$ 3,590	$ 1,699	$ 3,503

As at December 31, 1985, the Company's United States subsidiaries have accumulated losses of approximately U.S. $24,500,000 the potential future income tax benefits of which have not been recognized in these financial statements. The ability to realize these benefits expires in intervals over the years 1995 to 2000.

Deferred income tax arises from differences in the rates at which certain costs have been written off for tax purposes than for financial reporting purposes. The principal items which give rise to such timing differences and the amount of deferred income tax attributable thereto are as follows:

	1985	1984	1983	1982	1981
	(thousands of Canadian dollars)				
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded for accounting purposes	$(2,623)	$(2,335)	$(2,031)	$ 1,583	$ 2,501
Excess of exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded for accounting purposes	8,625	8,349	6,639	555	1,463
General and administrative expenses capitalized for income tax purposes and expensed for accounting purposes	(531)	(1,222)	(1,018)	(439)	(461)
	$ 5,471	$ 4,792	$ 3,590	$ 1,699	$ 3,503

8. OTHER INFORMATION

Share Purchase Plan

The Company has a Management Share Purchase Plan under which 175,000 common shares of the Company were allocated and purchased during 1985. Notes receivable in respect of the shares purchased under this plan in the amount of $654,000 at December 31, 1985 are due from officers and are shown as a reduction of common share capital.

Related party transactions

Throughout the years, the Company participated in certain properties on a joint venture basis with certain affiliates. In addition, a member of the Company's Board of Directors is a shareholder and director of Paloma Petroleum Ltd. with which the Company participated on a joint venture basis in certain properties. The terms of the joint venture agreements are considered comparable with non-related parties.

During 1985 the Company repaid a loan from an affiliate in the amount of $60,000,000 plus accrued interest. Interest owing to the affiliate at December 31, 1984 amounted to approximately $1,300,000. At March 31, 1986, accounts receivable included $8,236,000 due from the Company's parent, Bankeno Mines Limited relating to the sale of certain oil and gas properties at fair market value.

Commencing January 1, 1983 the Company had a management agreement for 1984 and 1983 with an affiliate to manage that company's Canadian oil and gas properties for a fee of $1,500,000 per year. During 1985 the Company received $650,000 upon termination of the agreement.

Commitments and contingencies exist under agreements and operations in the normal course of business, the total amount of which, in the opinion of management would not be significant to the financial position of the Company.

9. COMPARATIVE FIGURES

Certain of the comparative amounts have been reclassified to conform with current presentation.

10. WORKING CAPITAL PROVIDED FROM OPERATIONS (thousands of dollars)

	Three Months Ended March 31		Year Ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
Net earnings (loss)	$2,515	$2,353	$ 5,531	$ 5,336	$ 4,598	$(20,467)	$ (1,948)
Add items not affecting working capital							
Depletion and depreciation	5,425	5,307	18,692	17,896	15,743	17,019	11,603
Deferred income tax	1,676	1,803	5,471	4,792	3,590	1,699	3,503
Deferred petroleum and gas revenue tax	762	—	1,038	—	—	—	—
Amortization of deferred foreign exchange	76	143	574	514	70	138	46
Depletion and depreciation provided on discontinued operations	—	—	—	—	3,072	23,981	2,372
	$10,454	$9,606	$31,306	$28,538	$27,073	$ 22,370	$ 15,576

11. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada which differ from generally accepted accounting principles in the United States. For years ending after December 31, 1981, the only differences in accounting principles which have a significant effect on the Company's statement of earnings are that the settlement of certain contingencies would be expensed in 1984 rather than restating prior years, deferred foreign exchange losses would be expensed in the year incurred, and capitalized workover costs would be expensed as period costs.

The effects of the differences are as follows (thousands of Canadian dollars):

	Three Months Ended March 31		Year Ended December 31				
	1986	1985	1985	1984	1983	1982	1981
	(unaudited)						
Net earnings (loss) as reported	$2,515	$2,353	$5,531	$5,336	$4,598	$(20,467)	$(1,948)
Adjustments, net of applicable income taxes							
Settlement of contingencies	—	—	—	(830)	—	342	488
Deferred foreign exchange loss	76	(292)	(126)	(243)	10	(137)	107
Workover costs	(375)	(92)	(461)	(610)	(267)	—	—
Net earnings (loss) as adjusted	$2,216	$1,969	$4,944	$3,653	$4,341	$(20,262)	$(1,353)
Earnings (loss) per common share, as adjusted	$ .05	$ .06	$ .05	$ .05	$ .08	$ (1.13)	$ (.26)

12. DISCLOSURE OF OIL AND GAS PRODUCING ACTIVITIES AS REQUIRED BY STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 69

Capitalized costs relating to oil and gas producing activities.

At December 31, 1983 through 1985, there were no significant unproved oil and gas properties included in capitalized costs relating to oil and gas properties.

Costs incurred in oil and gas property acquisitions, exploration and development activities for the years ended December 31:

	1985	1984	1983
	(thousands of Canadian dollars)		
Acquisition of properties	$ 5,468	$ 5,040	$ 7,555
Exploration	5,130	8,004	2,777
Development	12,988	13,409	12,061
Results of operations for producing activities ending December 31:			
Revenue			
Sales (net)	$61,544	$62,644	$54,937
Transfers	—	—	—
Total	61,544	62,644	54,937
Production costs	13,531	11,020	9,815
Depreciation and depletion	18,392	17,687	15,489
	29,621	33,937	29,633
Income and resource taxes	15,491	17,305	12,126
Results of operations from producing activities (excluding corporate overhead and interest costs)	$14,130	$16,632	$17,507

Quantities of oil and gas reserves at December 31 (unaudited):

	1985		1984		1983	
	Oil*	Gas **	Oil*	Gas **	Oil*	Gas **
Beginning of year	1,534	417	1,327	419	861	406
Revision of previous estimates	71	4	113	1	291	2
Improved recovery	—	—	—	—	—	—
Purchase of minerals in-place	—	—	—	—	81	6
Extensions and discoveries	727	20	371	24	547	30
Production	(359)	(26)	(277)	(27)	(289)	(25)
Sales of minerals-in-place	—	—	—	—	(164)	—
End of year	1,973	415	1,534	417	1,327	419
Proved developed reserves are as follows:						
Beginning of year	1,521	385	1,236	387	805	382
End of year	1,711	380	1,521	385	1,236	387

There were no long-term supply agreements with foreign governments or any significant foreign geographic reserves.

*Oil stated in thousands of barrels before royalty interests.

**Gas stated in billion cubic feet before royalty interests.

Standard measure of discounted net cash flows and changes therein relating to proved oil and gas reserves at December 31 (unaudited):

	1985	1984	1983
	(thousands of Canadian dollars)		
Future cash inflows	$860,473	$827,276	$824,617
Future production and development costs	251,987	242,970	242,938
Future income tax expenses	181,701	196,728	196,705
Future net cash flows	426,785	387,578	384,974
10% annual discount for estimated timing of cash flows	216,869	189,602	183,953
Standardized measure of discounted net cash flows	$209,916	$197,976	$201,021

The following are the principal sources of changes in the standardized measure of discounted future net cash flows:

	1985	1984	1983
	(thousands of Canadian dollars)		
Sales and transfers of oil and gas produced, net of production cost	$ (48,013)	$ (51,624)	$ (45,122)
Net changes in prices and production costs	(29,006)	(17,410)	(55,450)
Extensions, discoveries, and improved recovery, less related costs	22,593	20,032	33,485
Development costs incurred during period	12,988	13,409	12,061
Net change in development costs	(15,751)	—	—
Accretion of discount	19,797	20,102	22,502
Net changes in income taxes	15,027	(23)	48,015
Other	34,305	12,469	(39,491)
	$ 11,940	$ (3,045)	$ (24,000)

AUDITORS' REPORT

The Shareholders
Merland Explorations Limited

We have examined the consolidated balance sheet of Merland Explorations Limited as at December 31, 1985 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada (which differ from generally accepted accounting principles in the United States as set out in Note 11) applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 26, 1986

Touche Ross & Co.
Chartered Accountants

AUDITORS' REPORT

The Directors
Merland Explorations Limited

We have examined the consolidated balance sheet of Merland Explorations Limited as at December 31, 1984 and the consolidated statements of earnings, deficit and changes in financial position for each of the four years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as are considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for each of the four years in the period ended December 31, 1984 in accordance with generally accepted accounting principles in Canada (which differ from generally accepted accounting principles in the United States as set out in Note 11) applied on a consistent basis.

Calgary, Alberta
February 20, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Appendix I

AMALGAMATION AGREEMENT

AMALGAMATION AGREEMENT made as of the 1st day of May, 1986.

BETWEEN:

NORTH CANADIAN OILS LIMITED, a corporation continued under the laws of Canada ("NCO")

OF THE FIRST PART

— and —

MERLAND EXPLORATIONS LIMITED, a corporation continued under the laws of Canada ("Merland")

OF THE SECOND PART

WHEREAS NCO and Merland desire to amalgamate and to continue as one corporation on the terms and subject to the conditions herein;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

ARTICLE I

1.01 In this Agreement the following defined terms shall have the meanings hereinafter set forth:

(a) "Act" means the Canada Business Corporations Act, S.C. 1974-75, c. 33, as amended or re-enacted;

(b) "Amalgamated Corporation" means the continuing corporation constituted upon the Amalgamation;

(c) "Amalgamation" means the amalgamation of NCO and Merland provided for herein;

(d) "Distribution Agreement" means the distribution agreement dated the date hereof among NCO, Merland and Bankeno Mines Limited; and

(e) "Effective Date" means the date of the Certificate of Amalgamation issued under the Act in respect of the Amalgamation.

1.02 The division of this Agreement into articles, sections and paragraphs is for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this Agreement and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.03 Words importing the singular number shall include the plural and vice versa, words importing the use of any gender shall include all genders and words importing persons shall include firms and corporations and vice versa.

ARTICLE II

2.01 NCO and Merland agree to amalgamate pursuant to the provisions of the Act and to continue as one corporation on the terms and subject to the conditions herein.

2.02 The name of the Amalgamated Corporation shall be "North Canadian Oils Limited".

2.03 The registered office of the Amalgamated Corporation shall be situate in Calgary, Alberta, Canada.

2.04 Neither the business that the Amalgamated Corporation may carry on or the issue, transfer or ownership of shares of the Amalgamated Corporation shall be restricted. The Amalgamated Corporation shall have a lien on a share registered in the name of a shareholder or his legal representative for a debt of that shareholder to the Amalgamated Corporation.

2.05 The Amalgamated Corporation shall be authorized to issue 20,149 5½% Cumulative Redeemable Sinking Fund Preferred Shares, each having a par value of $50.00 and an unlimited number of Class A Preferred Shares, Class B Preferred Shares, Special Non-Voting Shares and Common Shares, each without nominal or par value. The rights, privileges, restrictions and conditions attaching to each class and each designated series of shares of the Amalgamated Corporation shall be as set forth in the document titled "Share Terms of Amalgamated NCO" and identified by the initials of one of the persons signing this Agreement and which is incorporated herein as a part hereof.

2.06 The number of directors of the Amalgamated Corporation shall be nine. The first directors of the Amalgamated Corporation shall be the persons whose names and addresses are set forth below:

Name	Address
Walter J. Adams	3631 Utah Drive, N.W. Calgary, Alberta
Norman R. Gish	8940 Bayridge Dr. S.W., Calgary, Alberta
Marshall A. Jacobs	45 East 72nd Street Apartment 2C New York, New York
James F. Kay	235 Warren Road Toronto, Ontario
David W. Kerr	6 Glengowan Road Toronto, Ontario
Willard J. L'Heureux, Q.C.	350 Inglewood Drive Toronto, Ontario
Ross A. MacKimmie, Q.C.	2211 Carleton Street S.W., Calgary, Alberta
Douglas W. Miller	1702 - 24a Street, S.W. Calgary, Alberta
E. Donald Patterson	34 Broadbridge Drive Westhill, Ontario

The first directors shall hold office until the first annual meeting of the Amalgamated Corporation or until their successors are duly appointed or elected.

2.07 Directors of the Amalgamated Corporation shall be elected pursuant to the cumulative voting provisions of section 102 of the Act, as amended or re-enacted from time to time.

2.08 Each of the issued shares of each of NCO and Merland on the Effective Date, shall on that date be converted into fully paid and non-assessable issued shares of the Amalgamated Corporation as set forth below:

NCO		Amalgamated Corporation
One Common Share	=	One Common Share
One 5½% Cumulative Redeemable Sinking Fund Preferred Share	=	One 5½% Cumulative Redeemable Sinking Fund Preferred Share
Class A Junior Preferred Shares		Class A Preferred Shares
One Series 1	=	One Series 1
Class B Junior Preferred Shares	=	Class B Preferred Shares
One Series 1	=	One Series 1
One Series 2	=	One Series 2
One Series 3	=	One Series 3

Merland		Amalgamated Corporation
5.75 Common Shares	=	One Common Share
One Cumulative Redeemable Convertible First Preferred Share, Series A	=	One Class B Preferred Share, Series 6
One Cumulative Redeemable Convertible First Preferred Share, Series B	=	One Class B Preferred Share, Series 7

On the Effective Date 2,857,145 shares of the Class B Preferred Shares of the Amalgamated Corporation shall be designated as the 4th Series thereof and the same number shall be designated as the 5th Series thereof, each such series having the rights, privileges, restrictions and conditions attaching thereto as set forth pursuant to Section 2.05. In the event any of the Class B Junior Preferred Shares, Series 4 or Series 5 are issued and outstanding on the Effective Date they shall on that date be converted into fully paid and non-assessable issued shares of the corresponding series of shares of Amalgamated NCO on the basis of one to one.

The stated capital in respect of the issued shares of NCO and Merland converted into shares of the Amalgamated Corporation shall be added to the stated capital account of the respective class or series of shares of the Amalgamated Corporation into which such shares are converted pursuant to the foregoing.

Notwithstanding the foregoing, no fractional shares shall be issued. In the event a fraction results on the conversion of common shares of Merland in accordance with the foregoing, the Amalgamated Corporation shall purchase fractional shares for price equal to $12 multiplied by such fraction. Forthwith following the Effective Date the Amalgamated Corporation shall determine the holders of fractional shares, calculate the purchase price in respect thereof and issue cheques to the holders thereof in an amount equal to the purchase price and thereupon such fractional shares shall be deemed to have been purchased and cancelled by the Amalgamated Corporation. For the purposes of determining fractional interests the aggregate number of shares held by a holder shall be used. Holders in the United States shall be paid the equivalent in U.S. funds determined on the basis of the spot selling price at noon in Toronto, Ontario for the Canadian dollar as quoted by The Royal Bank of Canada on the Effective Date.

The shares of Merland held by or on behalf of NCO or shares of NCO held by or on behalf of Merland on the Effective Date shall be cancelled without any repayment of capital in respect thereof, and in particular the common shares of Merland held by NCO as a result the distribution thereof pursuant to the Distribution Agreement shall be so cancelled.

2.09 After the Effective Date certificates representing shares of NCO shall be deemed to represent shares of Amalgamated NCO. The shareholders of Merland may surrender the certificates representing shares held by them in Merland and, in exchange, shall be entitled to receive certificates representing shares of the Amalgamated Corporation on the basis set forth in Section 2.08.

2.10 On the Effective Date, the amalgamation of NCO and Merland and their continuance as one corporation shall become effective; the property of each of NCO and Merland continues to be the property of the Amalgamated Corporation; the Amalgamated Corporation continues to be liable for the obligations of each of NCO and

Merland; any existing cause of action, claim or liability to prosecution shall be unaffected; any civil, criminal or administrative action or proceeding pending by or against either NCO or Merland may be continued to be prosecuted by or against the Amalgamated Corporation; a conviction against, or ruling, order or judgment in favour of or against, either NCO or Merland may be enforced by or against the Amalgamated Corporation.

2.11 The first auditors of the Amalgamated Corporation shall be Touche Ross & Co., Calgary, Alberta, the current auditors of each of NCO and Merland. The first auditors of the Amalgamated Corporation shall hold office until the first annual meeting of the Amalgamated Corporation following the Amalgamation.

2.12 On the Effective Date the by-laws of Merland shall be adopted as the by-laws of the Amalgamated Corporation provided that if there are any inconsistencies between such by-laws and the articles of amalgamation of Amalgamated NCO, the articles of amalgamation shall prevail.

2.13 On the Effective Date the Amalgamated Corporation shall adopt the Management Share Purchase Plan of NCO, amended so as to increase the maximum number of shares thereunder to 300,000 and shall adopt the Employee Incentive Share Option Plan of NCO.

2.14 All matters relating to the Amalgamated Corporation provided for in Article II may, after the Effective Date, be repealed, amended or altered by the Amalgamated Corporation pursuant to the Act, its articles of amalgamation or its by-laws.

ARTICLE III

3.01 Notwithstanding the provisions hereof, it is a condition percedent to the Amalgamation that Bankeno Mines Limited shall have obtained the required shareholders approval and deposited the certificates representing the common shares of Merland owned by it, as provided for in paragraph 1 of the Distribution Agreement.

3.02 Each of NCO and Merland agree to give notice of and convene meetings of their respective shareholders to be held on June 25, 1986 for the purpose of considering, and if thought fit, approving the Amalgamation and this Agreement.

3.03 Subsequent to the approval of the Bankeno shareholders and deposit of the common shares of Merland by Bankeno as contemplated by Section 3.01 and the approval of the shareholders of each of NCO and Merland of the Amalgamation and this Agreement as contemplated by Section 3.02, NCO and Merland agree to jointly file with the Director under the Act, articles of amalgamation and such other documents as may be required to give effect to the Amalgamation with an Effective Date as close as possible to July 1, 1986 but in any event after June 27, 1986.

3.04 Notwithstanding the approval of the Amalgamation and this Agreement by the shareholders of either NCO or Merland the directors of either of NCO or Merland may, by resolution, agree to effect a revision or amendment to or terminate this Agreement at any time prior to the filing of the necessary documents with the Director under the Act.

ARTICLE IV

4.01 NCO covenants and agrees with Merland that it will, until the day following the Effective Date or the termination of this Agreement, and except with the prior written consent of Merland:

(a) not declare or pay any dividends, except for fixed dividends, or make any distribution of its properties or assets to its shareholders or retire, redeem or repurchase any of its shares or issue, or enter into any agreement to issue, any additional shares or grant options, warrants or rights to purchase shares of its capital stock, other than pursuant to those agreements or obligations outstanding on the date hereof;

(b) not merge into or with, consolidate with, or sell all or any substantial part of its assets to, any other corporation or person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions hereby contemplated or which would render inaccurate any of the representations and warranties set forth in Section 5.01 if such representations and warranties were made at a time subsequent to such act or transaction and all references to the date of this Agreement were deemed to be such later date;

(c) not alter or amend, in any way, its constating documents or by-laws as the same exist at the date of this Agreement; and

(d) carry on its business in the ordinary course and will not incur any obligation nor liability out of the ordinary course of its business, except as otherwise contemplated by this Agreement.

4.02 Merland covenants and agrees with NCO that it will, until the day following the Effective Date or the termination of this Agreement, except with the prior written consent of North Canadian:

(a) not declare or pay any dividends, except for fixed dividends, or make any distribution of its properties or assets to its shareholders or retire, redeem or repurchase any of its shares or issue, or enter into any agreement to issue, any additional shares or grant options, warrants or rights to purchase shares of its capital stock, other than pursuant to those agreements or obligations outstanding on the date hereof;

(b) not merge into or with, consolidate with, or sell all or any substantial part of its assets to, any other corporation or person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions hereby contemplated or which would render inaccurate any of the representations and warranties set forth in Section 5.02 if such representations and warranties were made at a time subsequent to such act or transaction and all references to the date of this Agreement were deemed to be such later date;

(c) not alter or amend, in any way, its constating documents or by-laws as the same exist at the date of this Agreement; and

(d) carry on its business in the ordinary course and will not incur any obligation nor liability out of the ordinary course of its business, except as otherwise contemplated by this Agreement.

ARTICLE V

5.01 NCO represents and warrants to and in favour of Merland as follows, and acknowledges that Merland is relying upon such representations and warranties:

(a) NCO is continued and is duly organized and validly existing under the laws of Canada and has the corporate power to enter into this Agreement and perform its obligations hereunder;

(b) the authorized and issued capital of NCO consists of:

(i) 20,149 5½% Cumulative Redeemable Sinking Fund Preferred Shares having a par value of $50 each of which 15,546 shares are issued and outstanding;

(ii) 10,000,000 Class A Junior Preferred Shares without par value of which 2,000,000 are designated as Series 1 shares, all of which are issued and outstanding;

(iii) 10,000,000 Class B Junior Preferred Shares without par value of which 1,000,000 are designated as Series 1 shares, all of which are issued and outstanding, 800,000 are designated as Series 2 shares, all of which are issued and outstanding, 2,300,000 are designated as Series 3 shares, of which 2,158,545 shares are issued and outstanding, 2,857,145 are designated as Series 4 shares, none of which are issued and outstanding and 2,857,145 are designated as Series 5 shares, none of which are issued and outstanding;

(iv) 20,000,000 Class A shares without par value none of which are issued and outstanding; and

(v) 20,000,000 common shares without par value of which 10,906,239 are issued and outstanding.

No person, firm or corporation will have immediately prior to the Effective Date any agreement, warrant or option, or any right capable of becoming an agreement, warrant or option, for the purchase of any unissued shares in the capital stock of NCO other than as has been disclosed to Merland;

(c) the execution and delivery of this Agreement has been duly approved by the board of directors of NCO;

(d) NCO has delivered to Merland its unaudited consolidated financial statements as at and for the three month period ended March 31, 1986, and its audited consolidated financial statements as at and for the year ended December 31, 1985 reported on by Touche Ross & Co., chartered accountants. Such

statements and the notes thereto present fairly the consolidated financial position of NCO as at such date and the results of its operations and the changes in its financial position for the respective period indicated in the said statements and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis except as otherwise stated in the notes to such statements;

(e) since December 31, 1985 there has been no material adverse change in the consolidated business or condition, financial or otherwise, of NCO from that shown in the consolidated financial statements as at that date; and

(f) since December 31, 1985, NCO has not declared or paid any dividend, other than fixed dividends, or made any distribution of its properties or asets to its shareholders, has not made any changes in its constating documents or by-laws and neither NCO nor its subsidiaries has disposed of any of its assets or incurred any indebtedness except in the ordinary course of business nor allowed any tax or other liability to be extended by waiver of any statute of limitations or otherwise.

It is acknowledged by the parties that Merland is a subsidiary of NCO. Any representations and warranties made by NCO shall exclude reference to Merland.

5.02 Merland represents and warrants to and in favour of NCO as follows, and acknowledges that NCO is relying upon such representations and warranties:

(a) Merland is continued and is duly organized and validly existing under the laws of Canada and Merland has the corporate power to enter into this Agreement and perform its obligations hereunder;

(b) the authorized and issued capital of Merland consists of:

(i) an unlimited number of First Preferred Shares without par value of which 2,000,000 are designated as Series A shares of which 1,303,788 are issued and outstanding and 1,500,000 are designated as Series B shares of which 1,100,355 are issued and outstanding; and

(ii) an unlimited number of common shares of which 20,977,154 are issued and outstanding

No person, firm or corporation will have immediately prior to the Effective Date any agreement, warrant or option or any right capable of becoming an agreement, warrant or option, for the purchase of any unissued shares in the capital stock of Merland other than has been disclosed to NCO;

(c) the execution and delivery of this Agreement has been duly approved by the board of directors of Merland;

(d) Merland has delivered to NCO its unaudited consolidated financial statements as at and for the three month period ended March 31, 1986, and its audited consolidated financial statements as at and for the year ended December 31, 1985 reported on by Touche Ross & Co., chartered accountants. Such statements and the notes thereto present fairly the consolidated financial position of Merland as at such date and the results of its operations and the changes in its financial position for the respective period indicated in the said statements and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis except as otherwise stated in the notes to such statements;

(e) since December 31, 1985 there has been no material adverse change in the consolidated business or condition, financial or otherwise, of Merland from that shown in the consolidated financial statements as at that date; and

(f) since December 31, 1985, Merland has not declared or paid any dividend, other than fixed dividends, or made any distribution of its properties or assets to its shareholders, has not made any changes in its constating documents or by-laws and neither Merland nor its subsidiaries has disposed of any of its assets or incurred any indebtedness except in the ordinary course of business or allowed any tax or other liability to be extended by waiver of any statute of limitations or otherwise.

ARTICLE VI

6.01 All notices which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally, and in the case of:

(a) NCO, addressed to:

North Canadian Oils Limited
#700, 112 - 4th Avenue, S.W.
Calgary, Alberta
T2P 4B2

(b) Merland, addressed to:

Merland Explorations Limited
#700, 112 - 4th Avenue S.W.
Calgary, Alberta
T2P 4B2

or such other address as the parties may, from time to time, advise to the other party hereto by notice in writing. The date of receipt of any such notice shall be deemed to be the date of delivery.

ARTICLE VII

7.01 This Agreement shall be binding upon and enure to the benefit of the parties hereto.

7.02 Neither party may assign its rights or obligations under this Agreement.

7.03 This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the parties hereto irrevocably attorn to the jurisdiction of the courts of the Province of Alberta.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

NORTH CANADIAN OILS LIMITED

Per: "Norman R. Gish"

Per: "Grant D. Billing"

MERLAND EXPLORATIONS LIMITED

Per: "Norman R. Gish"

Per: "Grant D. Billing"

Appendix II

The Board of Directors
North Canadian Oils Limited

and

The Board of Directors
Merland Explorations Limited
Suite 700, Sun Life Plaza III
112 - 4th Avenue S.W.
Calgary, Alberta
T2P 4B2

April 29, 1986

Dear Sirs:

We understand that North Canadian Oils Limited ("NCO") and Merland Explorations Limited ("Merland") propose to undertake an amalgamation pursuant to the Canada Business Corporations Act (the "Amalgation") and to continue as one corporation, Amalgamated North Canadian Oils Limited ("ANCO"), whereby shareholders of NCO and Merland will become shareholders of ANCO as follows:

NCO Shares		ANCO Shares
One common share	=	One common share
One 5½% Preferred Share	=	One 5½% Preferred Share
Class A Preferred Shares		Class A Preferred Shares
One Series 1	=	One Series 1
Class B Preferred Shares		Class B Preferred Shares
One Series 1	=	One Series 1
One Series 2	=	One Series 2
One Series 3	=	One Series 3

Merland Shares		ANCO Shares
5.75 common shares	=	One common share
One Preferred Share, Series A	=	One Class B Preferred Share, Series 6
One Preferred Share, Series B	=	One Class B Preferred Share, Series 7

You have requested that we express our opinion as to whether the Amalgamation is fair and reasonable to the shareholders of NCO and Merland.

In arriving at our opinion, we have, among other things:

(a) reviewed the relative performance and business characteristics of NCO and Merland against the background of the oil and gas industry in Canada;

(b) examined audited financial statements for NCO and Merland for each of the five years ended December 31, 1985;

(c) prepared and considered applicable financial ratios and statistics;

(d) examined projected financial information;

(e) reviewed share trading statistics of all listed classes of shares of NCO and Merland;

(f) examined the draft information circular relating to the Amalgamation;

(g) reviewed evaluations of the oil and gas properties of NCO, Merland and Bankeno Mines Limited ("Bankeno") dated January 1, 1986, prepared by independent consultants and sensitivity analyses based on these evaluations;

(h) reviewed a valuation of Bankeno's interest in the Polaris Mine dated January 16, 1986, prepared by independent engineers; and

(i) reviewed an evaluation of NCO's Wabamun/Hinton pipeline system dated February 1986, prepared by independent engineers.

In addition to the above, we have carried out various other analyses and investigations that we considered appropriate and held discussions with responsible officers of NCO and Merland and the auditors of NCO and Merland. We have relied upon publicly available information relating to NCO and Merland and upon the business, financial and other information supplied to us by NCO and Merland as well as their officers, employees, consultants, auditors and legal advisors. We have not conducted any independent enquiry to verify the accuracy or completeness of this information.

Based on the foregoing, we are of the opinion that the Amalgamation is fair and reasonable to the shareholders of NCO and Merland.

Yours very truly,

"Wood Gundy Inc."
WOOD GUNDY INC.

APPENDIX III

Section 184 of the Canada Business Corporations Act

(1) Subject to sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 185.1(4)(d) that affects the holder or if the corporation resolves to

(a) amend its articles under section 167 or 168 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(b) amend its articles under section 167 to add, change or remove any restriction upon the business or businesses that the corporation may carry on;

(c) amalgamate with another corporation, otherwise than under section 178;

(d) be continued under the laws of another jurisdiction under section 182; or

(e) sell, lease or exchange all or substantially all its property under subsection 183(2).

(2) A holder of shares of any class or series of shares entitled to vote under section 170 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 185.1(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.

(6) The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.

(7) A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing

(a) his name and address;

(b) the number and class of shares in respect of which he dissents; and

(c) a demand for payment of the fair value of such shares.

(8) A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.

(9) A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where

(a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12).

(b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or

(c) the directors revoke a resolution to amend the articles under subsection 167(2) or 168(4), terminate an amalgamation agreement under subsection 177(6) or an application for continuance under subsection 182(6), or abandon a sale, lease or exchange under subsection 183(8).

in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).

(12) A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) Upon an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.

(20) Upon an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of his shares as fixed by the court.

(23) A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

GLOSSARY
FOR USE WITH THE
JOINT PROXY CIRCULAR/PROXY STATEMENT/PROSPECTUS
OF
NORTH CANADIAN OILS LIMITED
MERLAND EXPLORATIONS LIMITED
AND
BANKENO MINES LIMITED

Amalgamated NCO means the continuing amalgamated corporation resulting from the Amalgamation, to be called North Canadian Oils Limited.

Amalgamated NCO Special Non Voting Shares means the Special Non Voting Shares in the capital of Amalgamated NCO.

Amalgamated NCO Class A Preferred Shares means the Class A Preferred Shares in the capital of Amalgamated NCO, and **Amalgamated NCO Class A Series 1 Shares** means the shares of Series 1 of the Amalgamated NCO Class A Preferred Shares.

Amalgamated NCO Class B Preferred Shares means the Class B Preferred Shares in the capital of Amalgamated NCO, and **Amalgamated NCO Class B Series 1 Shares, Amalgamated NCO Class B Series 2 Shares, Amalgamated NCO Class B Series 3 Shares, Amalgamated NCO Class B Series 4 Shares** and **Amalgamated NCO Class B Series 5 Shares, Amalgamated NCO Class B Series 6 Shares** and **Amalgamated NCO Class B Series 7 Shares** mean, respectively, the shares of Series 1, Series 2, Series 3, Series 4, Series 5, Series 6 and Series 7 of the Amalgamated NCO Class B Preferred Shares.

Amalgamated NCO 5½% Preferred Shares means the 5½% Cumulative Redeemable Sinking Fund Preferred Shares in the capital of Amalgamated NCO.

Amalgamation means the amalgamation of NCO and Merland described herein and as contemplated by the Amalgamation Agreement.

Amalgamation Agreement means the agreement dated May 1, 1986 between NCO and Merland relating to the Amalgamation.

AMEX means the American Stock Exchange.

Bankeno means Bankeno Mines Limited, and includes, where the context so requires, its wholly-owned subsidiaries Bankeno Resources Ltd. and Leaside Resources Inc., as well as its interest in Merland.

Bankeno Special Meeting means the annual and special meeting of shareholders of Bankeno to be held on June 25, 1986.

bbl means a barrel of oil, comprising 34.972 imperial gallons or 42 U.S. gallons; **mbbls** means one thousand bbls.

BCA means the Business Corporations Act (Alberta).

bcf means one billion cubic feet of natural gas.

bopd means barrels of oil per day calculated on a calendar year.

Canadian Regulations means the Income Tax Regulations promalgated under the Tax Act (Canada).

Certificate of Amalgamation means the certificate issued by the Director under the CBCA in respect of and effecting the Amalgamation.

CBCA means the Canada Business Corporations Act (Canada).

CIBC means Canadian Imperial Bank of Commerce.

COBC means Continental Bank of Canada.

D & S means D & S Petroleum Consulting Group Ltd.

D & S Bankeno Report means collectively the evaluation reports of D & S dated February 20, 1986 (escalating dollar) and February 28, 1986 (constant dollar) addressed to Bankeno and titled "Evaluation of the Interests of Bankeno Mines Limited".

D & S Merland Report means collectively the evaluation reports of D & S dated February 9, 1986 (escalating dollar) and February 28, 1986 (constant dollar) addressed to Merland and titled "Evaluation of the Interests of Merland Explorations Limited".

D & S NCO Report means collectively the evaluation reports of D & S dated February 27, 1986 (escalating dollar and constant dollar) addressed to NCO and titled "Evaluation of the Interests of North Canadian Oils Limited".

Distribution means the reduction of the stated capital of Bankeno by the pro rata distribution of the 11,204,984 Merland common shares owned by Bankeno to its shareholders in accordance with the Distribution Agreement;

Distribution Agreement means the agreement dated May 1, 1986 among NCO, Merland and Bankeno respecting the Distribution.

Effective Date means the date that the Amalgamation becomes effective, which shall be the date of the Certificate of Amalgamation and which is anticipated to be July 1, 1986.

Hees means Hees International Corporation.

Management Agreement means the Management and Technical Services and Cost Sharing Agreement made effective February 1, 1986 among NCO, Merland and Bankeno.

Merland means Merland Explorations Limited, and includes, where the context so requires, its wholly-owned subsidiaries Merland Resources, Inc. and Merland Oil & Gas, Inc.

Merland Common Share Special Meeting means the special meeting of holders of common shares of Merland to be held on June 25th, 1986.

Merland First Preferred Shares means the First Preferred Shares in the capital of Merland, and **Merland Preferred Series A Shares** and **Merland Preferred Series B Shares** mean, respectively, the Cumulative Redeemable Convertible First Preferred Shares, Series A and the Cumulative Redeemable Convertible First Preferred Shares, Series B in the capital of Merland.

Merland Preferred A Special Meeting means the special meeting of holders of Merland Preferred Series A Shares to be held on June 25, 1986.

Merland Preferred B Special Meeting means the special meeting of holders of Merland Preferred Series B Shares to be held on June 25th, 1986.

Mcf and **mmcf** mean, respectively, one thousand and one million cubic feet of natural gas; **mcf/d** and **mmcf/d** mean, respectively, one thousand and one million, cubic feet of gas per day, in each case calculated on a calendar year.

Motions means the Notice of Ways and Means Motion to amend the Tax Act (Canada) introduced in the House of Commons by the Minister of Finance on February 26, 1986.

MSE means the Montreal Exchange.

NCO means North Canadian Oils Limited, and includes, where the context so requires, its wholly-owned subsidiaries, North Canadian Resources, Inc. and North Canadian Investments Ltd.

NCO 5½% Preferred Shares means the 5½% Cumulative Redeemable Sinking Fund Preferred Shares in the capital of NCO.

NCO Class A Shares means the Class A Shares in the capital of NCO.

NCO Class A Preferred Shares means the Class A Preferred Shares in the capital of NCO, and **NCO Class A Series 1 Shares** means the shares of Series 1 of the NCO Class A Preferred Shares.

NCO Class B Preferred Shares means the Class B Preferred Shares in the capital of NCO, and **NCO Class B Series 1 Shares, NCO Class B Series 2 Shares, NCO Class B Series 3 Shares, NCO Class B Series 4**

Shares and **NCO Class B Series 5 Shares** mean, respectively, the shares of Series 1, Series 2, Series 3, Series 4 and Series 5 of the NCO Class B Preferred Shares.

NCO Special Meeting means the special meeting of shareholders of NCO to be held on June 25, 1986.

NCO Class A Special Meeting means the special meeting of the holders of NCO Class A Series 1 Shares to be held on June 25, 1986.

NCO Class B Special Meeting means the special meeting of the holders of NCO Class B Junior Preferred Shares to be held on June 25, 1986.

NCO Common Share Special Meeting means the special meeting of the holders of common shares of NCO to be held on June 25, 1986.

NGL's means natural gas liquids.

Polaris Mine means the lead-zinc mine located on Little Cornwallis Island in the Canadian Arctic operated by Cominco Ltd.

PGRT means Petroleum and Gas Revenue Tax levied under the Petroleum and Gas Revenue Tax Act (Canada).

Panarctic means Panarctic Oils Limited.

Proxy Circular means this Joint Proxy Circular/Proxy Statement/Prospectus of NCO, Merland and Bankeno.

SEC means the United States Securities and Exchange Commission.

SPC means Saskatchewan Power Corporation.

Special Meetings means collectively the Bankeno Special Meeting, the Merland Common Share Special Meeting, the Merland Preferred A Special Meeting, the Merland Preferred B Special Meeting, the NCO Special Meeting, the NCO Class A Special Meeting, the NCO Class B Special Meeting and the NCO Common Share Special Meeting and **Special Meeting** means one of the Special Meetings in respect of which the reference is made.

special resolution means, unless otherwise indicated, a resolution passed by a majority of not less than 66⅔% of the votes cast by the shareholders who voted in respect of that resolution.

Tax Act (Canada) means the Income Tax Act (Canada).

TransCanada means TransCanada PipeLines Limited.

TSE means The Toronto Stock Exchange.

Turbo means Turbo Resources Limited.

Wright Report means the evaluation report of Wright Engineering Limited dated January, 1986, addressed to Bankeno and titled "Valuation of Bankeno's 25% Royalty Interest in the Polaris Mine".

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